

SUMMARY DESCRIPTION
OF
HIGHWAY-RELATED REVENUE PROVISIONS
OF THE
HIGHWAY REVENUE ACT OF 1982

(Title V of the Surface Transportation
Assistance Act of 1982; H.R. 6211)

As Passed by the House and the Senate

Prepared by the Staff
of the
Joint Committee on Taxation

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CONTENTS

| | Page |
|---|------|
| Introduction----- | 1 |
| I. Summary Description----- | 2 |
| A. Motor Fuels Taxes----- | 2 |
| 1. Tax rates----- | 2 |
| 2. Exemptions----- | 2 |
| 3. Alcohol fuels income tax credit----- | 3 |
| 4. Tariff on imported alcohol fuels----- | 3 |
| 5. Time for payment of gasoline tax----- | 3 |
| B. Taxes on Trucks and Truck Parts----- | 4 |
| 1. Trucks----- | 4 |
| 2. Truck parts----- | 4 |
| C. Heavy Vehicle Use Tax----- | 5 |
| D. Taxes on Tires, Tread Rubber, and Inner Tubes----- | 7 |
| 1. Tires----- | 7 |
| 2. Tread rubber----- | 7 |
| 3. Inner tubes----- | 7 |
| E. Tax on Lubricating Oil----- | 7 |
| F. Floor Stocks Provisions----- | 8 |
| 1. Floor stocks taxes----- | 8 |
| 2. Floor stocks refunds----- | 8 |
| G. Highway Trust Fund----- | 9 |
| 1. Extension of the trust fund----- | 9 |
| 2. Revenues appropriated to the trust fund----- | 9 |
| 3. Expenditures and transfers from the trust fund----- | 9 |
| 4. Anti-deficit provision ("Byrd amendment")----- | 10 |
| H. Mass Transit Account----- | 11 |
| II. Estimated Revenue Effects----- | 12 |

INTRODUCTION

This document, prepared by the staff of the Joint Committee on Taxation, provides a summary description of the highway-related revenue provisions of the Highway Revenue Act of 1982 (Title V of the Surface Transportation Assistance Act of 1982; H.R. 6211) as passed by the House and the Senate. The nonhighway-related tax provisions of the Act are not described in this document.

The conference report on H.R. 6211 was filed in the House (H. Rep. No. 97-987) and the Senate (S. Rep. No. 97-692) on December 21, 1982, and was passed by the House on December 21. The conference report was passed by the Senate on December 23, 1982.

The first part of the document is the summary description of the highway-related revenue provisions of the Act. The second part presents estimated revenue effects for fiscal years 1983-1988, of the Highway Trust Fund taxes, (1) under the Act compared to current highway tax rates extended, (2) under the Act compared to present law highway taxes, and (3) the total Trust Fund tax revenues by type of tax under the Act.

I. SUMMARY DESCRIPTION

A. Motor Fuels Taxes

1. Tax Rates

The Act increases the present 4-cent-per-gallon taxes on gasoline, diesel fuel, and special motor fuels to 9 cents per gallon, effective for sales after March 31, 1983, and before October 1, 1988. The taxes terminate on October 1, 1988.

The taxes imposed on gasoline and special motor fuels used in motorboats are also increased from 4 cents per gallon to 9 cents per gallon during the same period. Revenues equivalent to the amounts received from these taxes will continue to be deposited in the National Recreational Boating Safety and Facilities Improvement Fund and the Land and Water Conservation Fund. The maximum amount per year that can be transferred to the Boating Safety Fund is increased from \$20 million per year to \$45 million per year and the maximum allowable balance in the Fund is increased to that same amount. Finally, the Boating Safety Fund is extended through September 30, 1988.

2. Exemptions

The Act continues or modifies most of the exemptions from the fuels taxes and enacts a new exemption for certain alcohol fuels. Unless otherwise indicated below in the description of a specific exemption, all new exemptions are effective on April 1, 1983, and through September 30, 1988. Under the Act, the following exemptions are provided:

Gasohol.--The Act increases the present 4-cents-per-gallon exemption to 5 cents per gallon, effective from April 1, 1983 through December 31, 1992.

Intercity, school, and local buses.--The Act continues the present full exemption from the fuels taxes for fuels used in these vehicles by increasing that exemption from 4 cents per gallon to 9 cents per gallon.

Qualified taxicabs.--The present 4-cents-per-gallon exemption is increased to 9 cents per gallon, from January 1, 1983, through September 30, 1984. Additionally, certain taxicabs prohibited by local law from offering ridesharing will qualify for the exemption from January 1, 1983, through December 31, 1983.

State and local governments and nonprofit educational institutions.--An exemption of 9 cents per gallon is provided for fuels sold for the exclusive use of these entities.

Farming use.--The exemption for fuels used on farms for farming purposes is increased from 4 cents per gallon to 9 cents per gallon.

Off-highway business use.--The exemption for fuels used in off-highway business uses is increased from 2 cents per gallon to 9 cents per gallon.

Certain alcohol fuels.--A new exemption of 9 cents per gallon is provided for fuels consisting of at least 85 percent methanol, ethanol, or other alcohols derived from sources other than petroleum or natural gas.

The Act also permits certain applicators to ground farming processes (e.g., fertilizer) to claim the farming use fuels tax exemption directly in the same manner as aerial applicators of these processes are permitted to claim the exemptions under present law.

3. Alcohol Fuels Income Tax Credit

The present law income tax credit for certain alcohol fuels is increased from 40 cents per gallon to 50 cents per gallon, effective from April 1, 1983, through December 31, 1992.

4. Tariff on Imported Alcohol Fuels

The present tariff on certain imported alcohol fuels is increased to 50 cents per gallon, effective from April 1, 1983, through December 31, 1992.

5. Time for Payment of Gasoline Tax

The time for paying the gasoline tax is extended from 9 days after the end of the semimonthly payment period to 14 days after that period for independent refiners (as defined in Code section 4995(b)(4)) and for all other taxpayers other than refiners producing more than 1,000 barrels of crude oil per day. To qualify for the additional time, the taxpayer must make an election and must pay the tax by electronic wire transfer. Additionally, in the case of payment days that fall on a Saturday, Sunday, or legal holiday, the tax must be paid on the preceding Friday (or Thursday, in the case of a Friday holiday).

B. Taxes on Trucks and Truck Parts

1. Trucks

The Act converts the 10-percent manufacturers excise tax on truck chassis and bodies, truck trailer and semitrailer chassis and bodies, and highway tractors to a 12-percent retail tax on those articles, effective April 1, 1983. A 2-percent retail tax is provided for articles taxable under the retail tax and for which the 10-percent manufacturers tax has been paid. A 12-percent retail tax also applies to the installation of parts or accessories (excluding replacements) on a taxable article, if it occurs within 6 months after the article was placed in service and the aggregate value of the installed parts exceeds \$200.

The gross vehicle weight below which articles are exempt from tax is raised from 10,000 pounds to 33,000 pounds in the case of truck chassis and bodies, and from 10,000 pounds to 26,000 pounds in the case of truck trailer and semitrailer chassis and bodies. In addition, rail trailers and vans (excluding piggy-back trailers or semitrailers) which are designed for use both as a highway vehicle and a railroad car are specifically exempt. The increase in threshold weights and the exemption of rail trailers and vans are effective the day after the date of enactment.

This tax will expire on October 1, 1988.

2. Truck parts

The Act repeals the 8-percent manufacturers excise tax on truck parts and accessories, effective on the day after the date of enactment. However, as described above, certain installations of parts or accessories are taxable under the 12-percent retail tax on trucks.

C. Heavy Vehicle Use Tax

The Act replaces the current tax rate of \$3 per 1,000 pounds of taxable gross weight with a tax rate that is graduated according to taxable gross weight:

| <u>Taxable gross weight</u> | | | <u>Rate of tax</u> |
|-----------------------------|----------------|------|---|
| At least: | But less than: | | |
| 33,000 pounds | 55,000 pounds | | \$50 per year, plus \$25 for each 1,000 pounds or fraction thereof in excess of 33,000 pounds |
| 55,000 pounds | 80,000 pounds | | \$600 per year, plus the applicable rate for each 1,000 pounds or fraction thereof in excess of 55,000 pounds |
| 80,000 pounds | | | The maximum amount |

The applicable rate and maximum amount are as follows:

| <u>Taxable period beginning on July 1 of</u> | <u>Applicable rate</u> | <u>Maximum amount</u> |
|--|------------------------|-----------------------|
| 1984 | \$40 | \$1,600 |
| 1985 | \$40 | \$1,600 |
| 1986 | \$44 | \$1,700 |
| 1987 | \$48 | \$1,800 |
| 1988 or thereafter | \$52 | \$1,900 |

This schedule applies with a one-year delay in the case of a person who owns and operates no more than 5 taxable vehicles during a taxable period. The tax expires on October 1, 1988, and the amount of tax for the taxable period beginning on July 1, 1988, is prorated accordingly, as one-fourth of the annual tax.

The Act raises the threshold level at which vehicles become

subject to tax from 26,000 pounds to 33,000 pounds of taxable gross weight. A new exemption is provided for vehicles which are used on the public highways for 5,000 miles or less during a taxable period. A new credit or refund is allowed on a pro rata basis, if a vehicle on which the tax has been paid is retired from service during a taxable period because of accident or theft.

The Act directs the Secretary of the Treasury (in consultation with other parties) to study alternative forms of the highway use tax and report findings and recommendations to the tax-writing committees of Congress before January 2, 1985. Beginning January 1, 1985, a State must require proof of payment of the highway use tax before registering a vehicle in order to qualify for its highway apportionment for the fiscal year.

These provisions are effective beginning on July 1, 1984.

D. Taxes on Tires, Tread Rubber, and Inner Tubes

1. Tires

The Act replaces the present tax of 9.75 cents per pound for highway tires made of rubber with a graduated tax at the following rates and poundage brackets:

| If the tire weighs--- | The rate of tax is--- |
|--|---|
| Not more than 40 lbs.--- | No tax. |
| More than 40 lbs. but not more than 70 lbs.-- | 15 cents per lb. in excess of 40 40 lbs. |
| More than 70 lbs. but not more than 90 lbs.-- | \$4.50, plus 30 cents per lb. in excess of 70 lbs. |
| More than 90 lbs.----- | \$10.50, plus 50 cents lb. in excess of 90 lbs. |

These provisions are effective on January 1, 1984, through September 30, 1988. The tax will expire on October 1, 1988.

In addition, the Act repeals the tax of 4.875 cents per pound on nonhighway tires and the tax on highway tires of one cent per pound on laminated tires, effective on January 1, 1984.

2. Tread Rubber

The Act repeals the present tax of 5 cents per pound on tread rubber used in recapping or retreading highway tires. The provision is effective on January 1, 1984.

3. Inner Tubes

The Act repeals the present tax of 10 cents per pound on inner tubes for tires, effective on January 1, 1984.

E. Tax on Lubricating Oil

The Act repeals the present tax of 6 cents per gallon on lubricating oil. The provision is effective on the day after the date of enactment.

F. Floor Stocks Provisions

1. Floor Stocks Taxes

The Act imposes floor stocks taxes with respect to those articles on which the rate of a manufacturers excise tax is increased. The floor stocks taxes are equal to the excess of the new tax rate over the prior rate and are imposed on the date that the rate increase is effective.

Under the Act, articles subject to floor stocks taxes include gasoline, tires over 40 pounds, and trucks and truck trailers over the increased taxable weight thresholds provided by the Act.

2. Floor Stocks Refunds

The Act provides for floor stocks refunds with respect to articles on which the rate of a manufacturers excise tax is repealed. The floor stocks refunds are equal to the tax previously paid with respect to the article. The refunds are payable to manufacturers upon proof that dealers (or consumers in the case of certain trucks and trailers) have been reimbursed for the amount of the tax.

Under the Act, floor stocks refunds are provided with respect to trucks and trailers below the new taxable weight thresholds, highway tires weighing 40 pounds or less, nonhighway tires, laminated tires, innertubes, tread rubber, and truck and trailer parts and accessories, all from which the Act removes the respective excise taxes.

G. Highway Trust Fund Provisions

1. Extension of the trust fund

The Highway Trust Fund is extended for an additional 4 years, from September 30, 1984, through September 30, 1988. To simplify codification of tax law, the trust fund is transferred to the Internal Revenue Code (as a new section 9503) on January 1, 1983, and the present statutory provision for the trust fund in section 209 of the Highway Revenue Act of 1956 is repealed simultaneously. For all purposes of law and any reference in any law, the Highway Trust Fund established in the Internal Revenue Code is to be treated as a continuation of this trust fund in its earlier statutory provisions.

2. Revenues appropriated to the trust fund

There are appropriated to the Highway Trust Fund amounts equivalent to the taxes received in the Treasury under the provisions relating to the highway excise taxes described above. Taxes received after the expiration date of the trust fund and before July 1, 1989, that are attributable to liabilities incurred before October 1, 1988, also are appropriated to the trust fund. Amounts appropriated to the Airport and Airway Trust Fund from the tax on aviation fuels are deducted beforehand from the amounts deposited in the Highway Trust Fund.

3. Expenditures and transfers from the trust fund

Expenditures may be made before October 1, 1988, from the trust fund, as provided by appropriation Acts, to meet obligations incurred after authorization by law and to be paid out of the Highway Trust Fund established by section 209 of the Highway Revenue Act of 1956, or authorized by law to be paid out of the Highway Trust Fund (in sec. 9503 of the code) under title I or II of the Surface Transportation Assistance Act of 1982. Expenditures also may be made from the trust fund to meet obligations that may be incurred after authorization by a law which does not authorize the expenditure out of the Highway Trust Fund of any amount for a general purpose not covered in the 1956 Act and the 1982 Act cited above, as in effect on December 31, 1982.

Expenditures from the Highway Trust Fund for highway purposes may not be made from the Mass Transit Account, described in the next section.

Transfers of funds may be made from the trust fund to the general fund for amounts paid before July 1, 1989, for tax credits, other payments attributable to non-highway uses of motor fuels and lubricating oil, and for floor stock refunds on the basis of claims filed for periods ending before October 1, 1988.

Motorboat fuels taxes up to \$45 million will be transferred annually to the National Recreational Boating Safety and Facilities Improvement Fund through September 30, 1988. No transfers may be made if the accumulated balance in the Boating Safety Fund is \$45 million. Any other amounts of motorboat fuels taxes will be transferred to the Land and Water Conservation Fund.

4. Anti-deficit provision ("Byrd amendment")

Under the "Byrd amendment," at least once in each calendar quarter, the Secretary of Treasury - after consultation with the Secretary of Transportation - will estimate the unfunded highway authorizations at the close of the next fiscal year and the net receipts of the Highway Trust Fund for the 24-month period beginning at the close of such fiscal year. In the event the unfunded authorizations will exceed the estimated receipts, the Secretary of Transportation will reduce the apportionment to the States by the percentage of excess authorization. If a subsequent quarterly estimate indicates that the excess unfunded authorizations are a smaller amount, or there is no excess, the apportionments to the States will be adjusted accordingly.

The provision that authorizes repayable advances from the general fund to the Highway Trust Fund is repealed.

These provisions are effective on January 1, 1983.

H. Mass Transit Account

A separate Mass Transit Account is established in the Highway Trust Fund. It consists of the revenue equivalent of 1 cent a gallon of the 9 cents a gallon excise taxes imposed on gasoline, diesel and special motor fuels. These amounts will be transferred to the Mass Transit Account with the same regularity and under the same conditions as amounts from these taxes are transferred to the Highway Trust Fund. Interest earned as a result of investment in United States securities on the portion of amounts in the Highway Trust Fund that are attributable to the Mass Transit Account will be credited to the Mass Transit Account.

Amounts in the Mass Transit Account are available, as provided by appropriation Acts, for making capital expenditures (including capital expenditures for new projects) before October 1, 1988, under section 21(a)(2) of the Urban Mass Transportation Act of 1964. Expenditures from the Mass Transit Account may be made only for mass transit capital purposes, and no expenditures may be made from this account for highway purposes.

Unfunded authorizations are limited to the estimated net receipts for the Mass Transit Account. The procedure is the same as that specified for unfunded highway authorizations that may be paid from the Highway Trust Fund, except that for the Mass Transit Account, unfunded authorizations for any fiscal year may not exceed 12 months of estimated net receipts.

The provision establishing the Mass Transit Account takes effect on January 1, 1983.

II. REVENUE EFFECTS OF THE ACT

The revenue effects of the Highway Trust Fund tax provisions of the Act are summarized in three tables.

Table 1 presents the estimated changes in Highway Trust Fund tax revenues by major component compared to receipts under current tax rates extended through 1988. Total Highway Trust Fund revenues are projected to increase by \$2.2 billion in fiscal year 1983, \$4.9 billion in 1984, \$5.2 billion during each of the next two years, and \$5.4 billion in each 1987 and 1988. The table also shows the net revenue effects of the Act, which take into account the decreases in income taxes resulting from higher excise taxes. The net revenue effects on budget receipts are estimated at \$1.7 billion in fiscal year 1983, \$3.7 billion in 1984, \$3.9 billion in 1985, \$4.0 billion in each of the next three years.

Table 2 provides comparable data but the revenue changes have been calculated from receipts that would have been collected under rate reductions or expirations scheduled for 1984. Consequently, the revenue gains shown in this table are substantially higher than those in Table 2 for fiscal years beginning with 1985: \$9.4 billion in 1985, \$9.6 billion in 1986, \$9.9 billion in 1987, and \$10.0 billion in 1988.

Table 3 shows total estimated Highway Trust Fund tax revenues under the Act for fiscal years 1983-1988. Total Trust Fund tax revenues will increase from \$6.7 billion actual in fiscal year 1982 to \$8.6 billion in fiscal year 1983, \$11.7 billion in fiscal year 1984, and \$13.4 billion in fiscal year 1988.

Table 1.

Estimated Revenue Effects of Tax Provisions of Highway Revenue Act of 1982:
Changes in Highway Trust Fund Revenues Compared to Receipts at Current Tax
Rates Extended Through 1988

(Millions of Dollars: Fiscal Years)

| <u>Tax</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> |
|--|--------------|--------------|--------------|--------------|--------------|--------------|
| Gasoline | 2,271 | 4,705 | 4,628 | 4,558 | 4,561 | 4,609 |
| Diesel | 341 | 803 | 861 | 919 | 984 | 1,057 |
| Trucks and trailers | -158 | -- | 35 | 61 | 74 | 79 |
| Truck parts | -178 | -282 | -308 | -336 | -364 | -395 |
| Tires | -- | -385 | -521 | -553 | -574 | -597 |
| Tubes | -- | -15 | -22 | -22 | -22 | -22 |
| Tread rubber | -- | -15 | -22 | -22 | -22 | -22 |
| Lubricating oil | -67 | -80 | -80 | -80 | -80 | -80 |
| Use tax | -- | <u>152</u> | <u>601</u> | <u>723</u> | <u>807</u> | <u>734</u> |
| Total Tax Revenues | <u>2,209</u> | <u>4,883</u> | <u>5,172</u> | <u>5,248</u> | <u>5,364</u> | <u>5,363</u> |
| Net revenue effect on budget receipts after income offsets | <u>1,670</u> | <u>3,686</u> | <u>3,903</u> | <u>3,960</u> | <u>4,048</u> | <u>4,048</u> |

Note: Revenues are net of refunds and transfers.

Table 2.

Estimated Revenue Effects of Tax Provisions of Highway Revenue Act of 1982:
Changes in Highway Trust Fund Revenues Compared to Receipts Under Present Law

(Millions of Dollars: Fiscal Years)

| <u>Tax</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> |
|--|--------------|--------------|--------------|--------------|--------------|---------------|
| Gasoline | 2,271 | 4,705 | 6,925 | 6,868 | 6,884 | 6,936 |
| Diesel | 341 | 803 | 1,303 | 1,394 | 1,496 | 1,607 |
| Trucks and trailers | -158 | -- | 716 | 819 | 888 | 965 |
| Truck parts | -178 | -282 | -192 | -210 | -228 | -247 |
| Tires | -- | -385 | -186 | -198 | -206 | -214 |
| Tubes | -- | -15 | -20 | -20 | -20 | -20 |
| Tread Rubber | -- | -15 | -- | -- | -- | -- |
| Lubricating oil | -67 | -80 | -80 | -80 | -80 | -80 |
| Use tax | -- | <u>152</u> | <u>888</u> | <u>1,023</u> | <u>1,119</u> | <u>1,059</u> |
| Total Tax Revenues | <u>2,209</u> | <u>4,883</u> | <u>9,354</u> | <u>9,596</u> | <u>9,853</u> | <u>10,006</u> |
| Net revenue effect on budget receipts after income offsets | <u>1,670</u> | <u>3,686</u> | <u>7,040</u> | <u>7,222</u> | <u>7,415</u> | <u>7,530</u> |

Note: Revenues are net of refunds and transfers.

Table 3.

Estimated Highway Trust Fund Tax Revenues Under Highway Revenue Act of 1982

(Million of Dollars: Fiscal Years)

| <u>Tax</u> | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>1988</u> |
|---------------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Gasoline | 6,182 | 8,463 | 8,375 | 8,315 | 8,339 | 8,394 |
| Diesel | 968 | 1,457 | 1,567 | 1,680 | 1,802 | 1,935 |
| Trucks and trailers | 610 | 1,102 | 1,397 | 1,578 | 1,702 | 1,850 |
| Truck parts | 64 | -- | -- | -- | -- | -- |
| Tires | 530 | 250 | 151 | 160 | 166 | 173 |
| Tubes | 20 | 7 | -- | -- | -- | -- |
| Tread rubber | 21 | 7 | -- | -- | -- | -- |
| Lubricating oil | 13 | -- | -- | -- | -- | -- |
| Use tax | <u>228</u> | <u>427</u> | <u>888</u> | <u>1,022</u> | <u>1,119</u> | <u>1,059</u> |
| Total Tax Revenues | <u>8,636</u> | <u>11,713</u> | <u>12,378</u> | <u>12,755</u> | <u>13,128</u> | <u>13,411</u> |

Note: Revenues are net of refunds and transfers. The estimated amounts of gasoline tax to be transferred to the Land and Water Conservation Fund and to the National Recreational Boating Safety and Improvement Fund are \$47 million in fiscal year 1983, \$65 million annually in 1984 and 1985, and \$64 million annually during the period 1986-1988.