

# Fuel Taxes in 2017- Managing Tax Expenses

By Alan Apthorp, *Market Intelligence Analyst*

With a new year comes many changes—including the implementation of numerous state motor fuel tax updates. Motor fuel taxes are a significant component of fuel prices, yet they are easily overlooked when evaluating fleet fuel budgets. Fuel taxes may seem like an undue burden, yet for many reasons U.S. consumers benefit from a tax regime that is far more consumer-friendly than those in foreign nations. Fuel taxes are a source of complexity for consumers, but with the proper tools, tax expenses can be effectively managed.



## DID YOU KNOW?

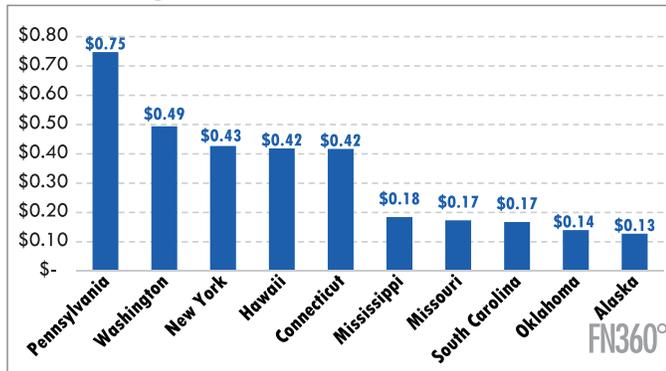
The first fuel tax was implemented on June 6, 1932, with a gasoline tax of \$.01 per gallon. Today, the federal gasoline tax is \$.184.

## Current Tax Landscape

Federal diesel and gasoline taxes have been 24.4 cents and 18.4 cents, respectively, since 1993, but states have discretion to set their own fuel taxes. Anyone who has travelled through different states has seen the wide variety in fuel prices due to state taxes.

Residents of Pennsylvania have the “privilege” of paying the highest fuel taxes in the nation: \$.58 for gasoline and \$.75 for diesel. Alaska, which pays just \$.12 and \$.13 for gasoline and diesel taxes, has the lowest fuel taxes in the U.S., thanks to high revenues generated from oil production. Generally, the Northeast and West Coast have higher tax rates, while the Midwest and Southeast have some of the lowest taxes.

### Five Highest and Lowest State DIESEL Taxes



Source: American Petroleum Institute

### Five Highest and Lowest State GASOLINE Taxes

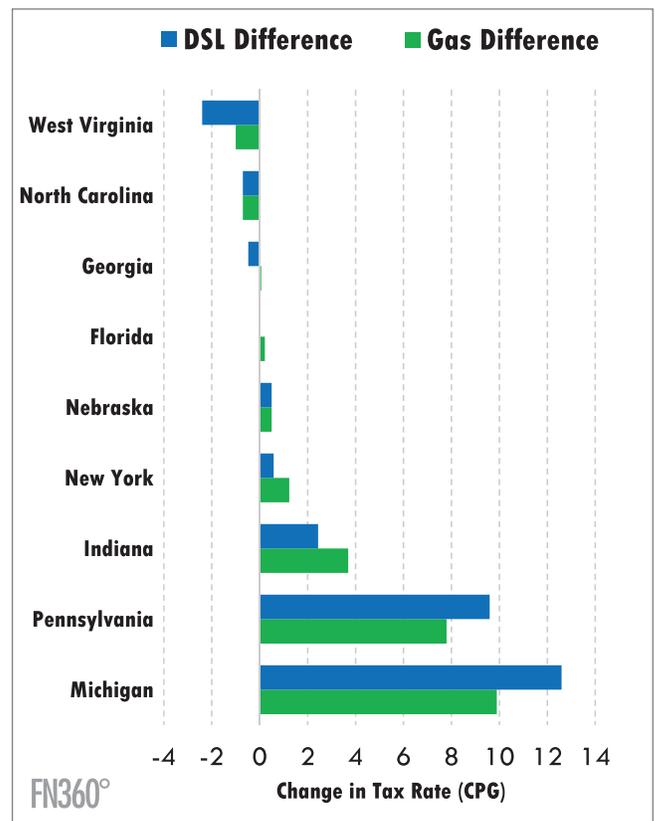


Source: American Petroleum Institute



Between the beginning of 2016 and 2017, 24 states made changes to their fuel taxes, 9 of which took place on January 1, 2017. Nationally, the average tax rate rose from \$.4799 for gasoline to \$.4944, an increase of \$.0145. For diesel, average national rates rose from \$.5378 to \$.5541, an increase of \$.0163.

### State Tax Changes on Jan 1, 2017



Source: American Petroleum Institute

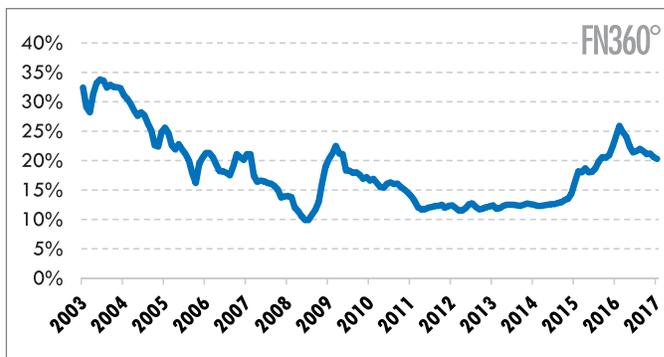
States that implemented fuel tax increases include: Nebraska, New York, Indiana, Pennsylvania, and Michigan. On the flip side, states who decreased fuel taxes include Georgia, North Carolina, and West Virginia.

## Taxes Drive Significant Portion of Fuel Costs

According to the EIA, taxes made up 20% of refined product retail prices in January 2017. That's higher than the 20-year historical average rate of 18%, and far higher than the 10-15% experienced between 2010 and 2014. That percentage is due less to high taxes, however, than to the relatively low oil price environment we're experiencing.



## Tax as a Percent of Retail Diesel Prices

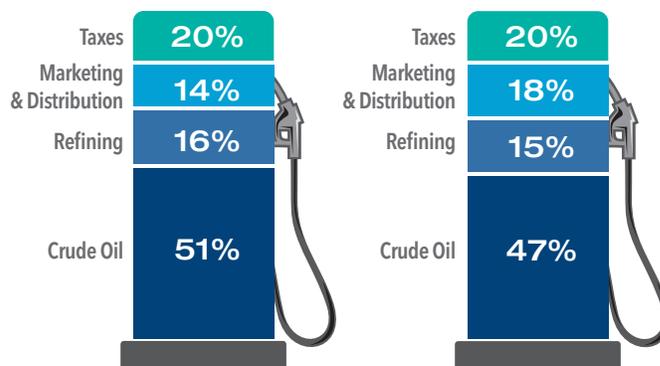


Source: Energy Information Administration (EIA)

While prices may seem to be climbing higher every day, it was only a few years ago that \$3.00 to \$4.00 per gallon prices were common. Since taxes have remained relatively unchanged overall, their percent of price would naturally rise as overall fuel prices fell. While taxes are a substantial portion of fuel prices, those costs are only noticeable because fuel prices have dropped so low overall.

**Regular Gasoline (January 2017)**  
Retail Price: \$2.35/Gallon

**Diesel (January 2017)**  
Retail Price: \$2.58/Gallon



Source: Energy Information Administration (EIA)

## Fuel Taxes Benefit U.S. Transportation Infrastructure

In the U.S., fuel taxes are used predominantly to fund transportation infrastructure. Federally, this spending is allocated to the Highway Trust Fund, the purpose of which is to keep our highways smooth and clear. Most state governments channel fuel taxes to roads and infrastructure as well. Fuel taxes in the U.S. are so low, however, that the Highway Trust Fund has an ongoing budget problem.

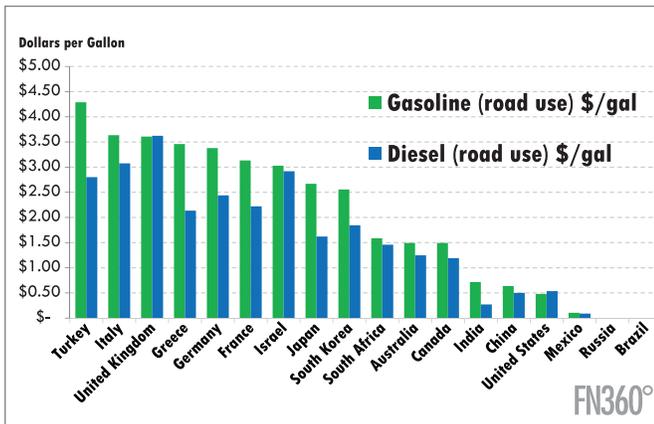
Federally, fuel taxes are imposed at a flat rate per gallon. This rate has not changed since 1993, but inflation has grown significantly since then. Consumers should count themselves lucky that they've received what amounts to a lower nominal tax rate each year, thanks to inflation. This dynamic puts pressure on infrastructure projects to reduce costs, at times causing delays or cancellation of improvement projects.

Many states have a similar problem, particularly states imposing a fixed fuel tax. Nearly half of the states in the U.S. have not increased their tax rates a single time in the last decade, and sixteen have not increased their tax rate in over two decades. This may seem to be a boon to consumers, but what consumers save at the pump, they're paying for in increased vehicle repairs and traffic congestion.

## U.S. Fuel Taxes Are Among the Lowest Globally

Another small comfort for U.S. consumers is that the United States has one of the lowest fuel taxes in the developed world. Among member nations of the Organisation for Economic Co-operation and Development (OECD), only Mexico has lower motor fuel taxes. In fact, the average OECD tax rate is a whopping \$2.62 per gallon, including excise and sales taxes. Outside of the OECD, only a few major countries, including Russia and Brazil, have lower fuel taxes. The U.S. is also the only OECD nation that does not charge sales tax on motor fuels.

### Fuel Taxes by Country



Our neighbor to the north, Canada, who has the next lowest tax rate in the OECD after the U.S., charges \$1.19 in taxes per gallon of diesel fuel. Most European countries charge substantially higher fuel taxes than the U.S., as do many Asian nations. For many of these countries, carbon control initiatives lead to high taxes on fossil fuels. Rather than supporting infrastructure, this revenue supports carbon emissions programs or other environmental projects. Many other countries simply use fuel tax income as additional government revenue, to be spent wherever political leaders see fit.

## Reducing Fuel Costs by Managing Taxes

When placed in context, the United States' fuel tax is not quite as bad as many imagine it to be. Taxes make up a large percentage of fuel prices currently, but only because fuel prices have fallen so low. Those taxes are crucial to funding infrastructure projects throughout the U.S. that keep our economy moving. They are also much lower than the rates of our international peers.

Still, there's no shame in cutting costs wherever possible, including mitigating fuel tax costs. Companies can claim fuel tax exemptions, or even credits, for certain uses and fuel types.

The most well-known exemption from motor fuel taxes is off-road diesel. Construction companies, farmers, and even individuals with home generators have taken advantage of this tax policy to reduce fuel costs. There is some confusion surrounding the law, however, particularly concerning which type of off-road activity is included. A good rule of thumb is that if your vehicle has a license plate, it does not qualify for off-road diesel prices.



Another exemption applies to vehicles used for certain non-profit activities. While not all non-profit uses qualify, certain vehicles, such as blood mobiles, can use dyed fuel or apply for a tax refund on gallons consumed. Vehicles used exclusively by nonprofit educational organizations are also exempt from fuel taxes. Buses transporting students, whether owned by a non-profit school or not, may use off-road diesel in most states. If your organization is a non-profit, or engages in certain non-profit activities, you may want to consider the motor fuel tax implications of those activities.

Finally, one of the easiest ways to reduce your fuel taxes is by consuming biodiesel. At the federal level, any biofuel blend below B85 is taxed no differently than normal diesel fuel. In the past, the federal government offered a \$1 tax credit per biofuel gallon; if Congress extends these credits (a very large "if," given the political landscape), biodiesel could see improved economics. Regardless of federal action, though, some states offer incentives to burn biofuels by providing tax credits or exemptions. Switching to biofuels in these markets is one way companies can reduce their fuel tax costs.

## Successfully Managing Fuel Tax Expenses

No matter how you feel about taxes or what strategies your company employs to mitigate tax expenses, remember that your company is ultimately responsible for paying the correct taxes. If your fuel supplier charges you the wrong tax rate and you pay those rates in good faith, federal and state agencies will still hold *you* accountable, not your supplier.

For this reason, taking appropriate measures to audit fuel taxes is critical for companies. As a best practice, Mansfield provides its customers with detailed tax summaries and analysis through its online reporting platform.

Tax departments must remain aware of all changing regulations to ensure that proper taxes are being paid. Regardless of how you receive your transaction details, check that you have a robust tax validation process in place to ensure you are paying the correct taxes. •