

Legislative Fiscal Division

Revenue Estimate Profile

Diesel Tax

Revenue Description: The Montana Constitution (Article VIII, Section 6) provides that money from taxes on vehicle fuel be used solely for: 1) payment of obligations incurred for construction, reconstruction, repair, operation, and maintenance of public highways, streets, roads, and bridges; 2) payment of county, city, and town obligations on streets roads, and bridges; and 3) enforcement of highway safety, driver education, tourist promotion, and administrative collection costs. Appropriation of the money for any other use requires a three-fifth vote of each house of the legislature.

There are two sources of revenue associated with the taxation of special fuels (primarily diesel): 1) the main source of revenue is a diesel tax paid to the Montana Department of Transportation (MDT) for every gallon of diesel sold or used in the state; and 2) a tax assessed on each gallon of diesel fuel for the purpose of funding petroleum storage tank cleanup. The applicable tax rates for each are shown below.

Distributors are allowed to withhold 1.0% of the diesel tax as an allowance for collecting the tax. In order to prevent the possibility of dual taxation of motor fuels purchased by Montana citizens and businesses on Indian reservations, MDT and Indian tribes may enter into a cooperative agreement. Refunds of the tax paid is provided for commercial vehicle use other than for use on public highways and streets, governmental use, and nonpublic school use for the transportation of pupils.

Statutory Reference:

Tax Rate (MCA) – 15-70-321(2), 75-11-313 (storage tank cleanup)

Tax Distribution (MCA) – 15-70-101(1), 75-11-314 (storage tank cleanup)

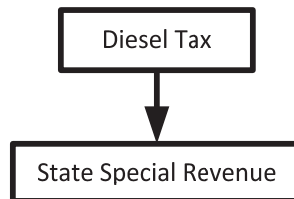
Date Due – 25th of the following month (15-70-344(1))

Applicable Tax Rate(s):

1. Diesel (Special) Fuel Tax - \$0.2775 per gallon
2. Petroleum Storage Tank Cleanup Tax - \$0.0075 per gallon

Distribution: After reductions, diesel tax proceeds are distributed to MDT. The four reductions are: the 1.0% withheld by distributors; administrative expenses and refund amounts deducted by MDT under a tribal agreement (if any) that are deposited in the tribal motor fuels administration account and statutorily appropriated; diesel tax refunds; and amounts refunded through the international fuel tax agreement. Of the amount distributed to MDT, 1/4 of \$0.01 per gallon is allocated specifically to the funding of highway system maintenance.

Distribution Chart:



Summary of Legislative Action:

Senate Bill 226 – This bill allows the use of dyed (non-taxed) fuel to be used in a motor vehicle that has been equipped with a permanently affixed feed-delivery box, used exclusively for the feeding of livestock.

Diesel Tax – Legislation Passed by 63rd Legislature			
State Special Revenue Impact (\$ Millions)			
Bill Number and Short Title	FY 2013	FY 2014	FY 2015
SB0226 Revise laws relating to dyed diesel and vehicles dedicated to animal husbandry	\$0.000	(\$0.012)	(\$0.013)
Total State Special Revenue Impact	\$0.000	(\$0.012)	(\$0.013)

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Collection Frequency: Monthly

% of Total General Fund Revenue: N/A

Revenue Estimate Methodology:

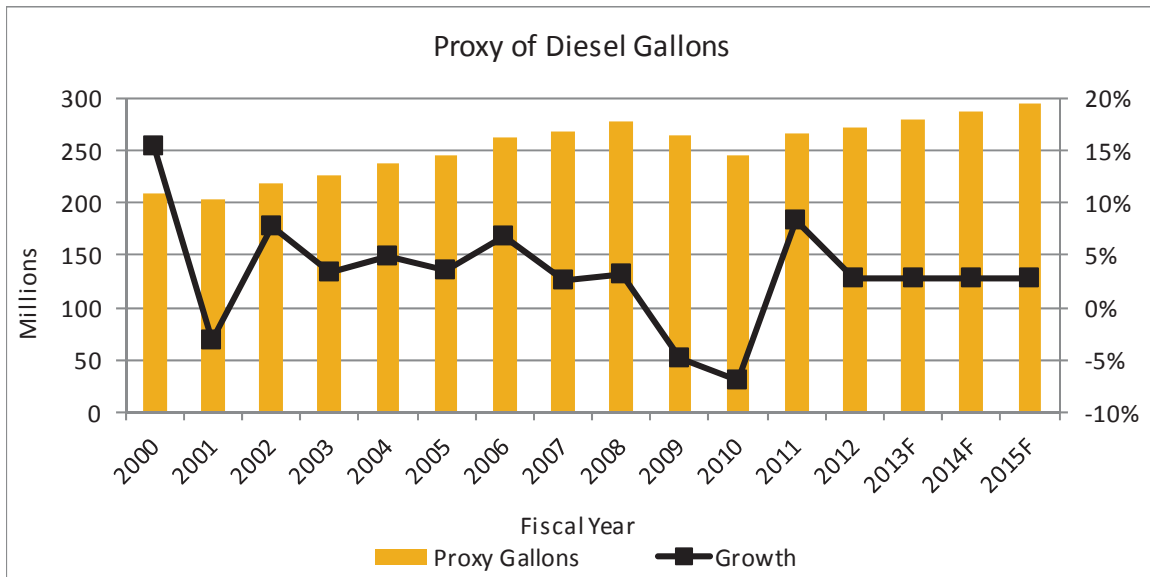
Data

The data used in the diesel fuel tax estimate are obtained from the state accounting system (SABHRS). The SABHRS data includes a historic series of diesel tax revenues and is used to produce a proxy amount for taxable gallons of diesel sold in Montana.

Total diesel taxes are composed of two distinct taxes, the diesel tax and the diesel petroleum storage tank cleanup tax (imposed to cover the cost of storage tank cleanup). Each rate is applied to a proxy for taxable diesel gallons. To create the proxy, the actual tax revenues are increased by refunds and then divided by the effective tax rate. The effective tax rate is created in recognition of the statutory credit provided to diesel distributors for collection and payment of the tax. Under current law, diesel distributors are allowed to keep 1% of the tax on all diesel receipts and must pay 99% of the tax receipts to the state.

Analysis

Diesel fuel taxes are estimated as separate taxes. First, the diesel tax is imposed on each gallon of diesel sold in the state. A second tax is imposed on all diesel fuel distributed in the state for the purpose of diesel storage tank clean-up costs (storage tank tax). The two taxes are applied to different bases, because the diesel fuel tax provides credits against the cost of the tax to consumers who use the diesel "off highway." Future growth in diesel fuel consumption is assumed to be at the same rate of growth as in FY 2012. The storage tank tax is expected to follow the same patterns as the diesel fuel tax. The effective diesel fuel tax rates are applied to the estimates to produce the estimate for gross tax revenues.



The figure above shows the actual gallons of diesel fuel sold in Montana since 2000, and the expected sales of diesel fuel for the upcoming three fiscal years, along with the expected change between the years.

Adjustments

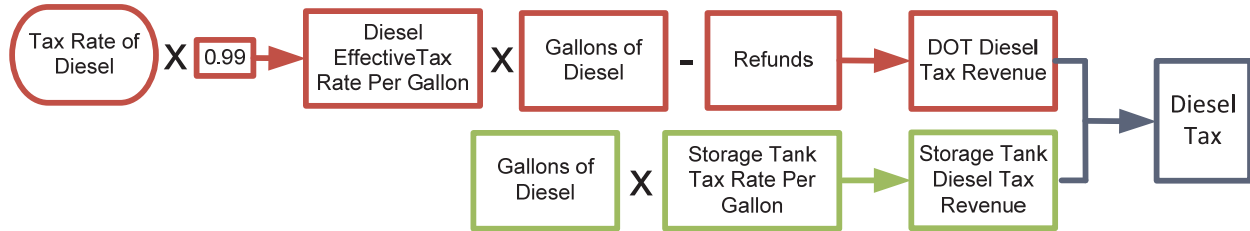
Several adjustments are made to the expected gross diesel fuel tax revenues. Gross tax revenues are reduced by refunds, incentives, MDT administrative costs, and tribal agreements, resulting in the estimate for net diesel fuel tax revenue. No adjustments are required for the storage tank tax. The net tax revenues of the two taxes are combined to determine the estimate for total diesel fuel tax revenue. Finally, the tax revenues are distributed to the various state special revenue accounts as described above.

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Forecast Methodology:



Revenue Estimate Assumptions:

This section contains the assumptions used to generate the revenue estimates contained in Senate Joint Resolution 2. It does not reflect changes, if any, enacted by the 2013 Legislature that may affect future estimates of this revenue source.

	t	Total Tax	GF Tax	Gross	Diesel Tax	Tank Tax
	Fiscal	Millions	Millions	Millions	Millions	Millions
Actual	2002	58.261	0.000	62.221	56.094	2.166
Actual	2003	60.133	0.000	64.332	57.902	2.232
Actual	2004	63.181	0.000	67.600	60.750	2.431
Actual	2005	65.367	0.000	70.069	62.723	2.644
Actual	2006	70.595	0.000	74.767	67.780	2.815
Actual	2007	71.020	0.000	76.687	68.185	2.835
Actual	2008	74.302	0.000	79.004	71.488	2.814
Actual	2009	71.791	0.000	75.135	69.159	2.632
Actual	2010	66.896	0.000	70.016	64.313	2.583
Actual	2011	71.994	0.000	75.820	69.181	2.813
Actual	2012	74.292	0.000	77.922	71.350	2.943
Forecast	2013	76.300	0.000	80.027	73.278	3.022
Forecast	2014	78.362	0.000	82.190	75.258	3.104
Forecast	2015	80.479	0.000	84.411	77.291	3.188

	t	Refunds	Diesel	Tank	Diesel	Tank
	Fiscal	Millions	Effective Rate	Effective Rate	Gallons Millions	Gallons Millions
Actual	2002	-3.960	27.5%	0.8%	218.597	288.854
Actual	2003	-4.199	27.5%	0.8%	226.047	297.553
Actual	2004	-4.419	27.5%	0.8%	237.218	324.090
Actual	2005	-4.702	27.5%	0.8%	245.428	352.536
Actual	2006	-4.172	27.5%	0.8%	261.906	375.269
Actual	2007	-5.667	27.5%	0.8%	268.819	378.036
Actual	2008	-4.702	27.5%	0.8%	277.333	375.173
Actual	2009	-3.344	27.5%	0.8%	263.909	350.994
Actual	2010	-3.120	27.5%	0.8%	245.455	344.436
Actual	2011	-3.826	27.5%	0.8%	265.744	375.099
Actual	2012	-3.629	27.5%	0.8%	272.924	392.360
Forecast	2013	-3.727	27.5%	0.8%	280.299	402.962
Forecast	2014	-3.828	27.5%	0.8%	287.873	413.851
Forecast	2015	-3.932	27.5%	0.8%	295.652	425.033

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	<u>t</u>	<u>GF</u>	<u>DOT</u>	<u>GF</u>	<u>DOT</u>
	<u>Fiscal</u>	<u>Percent</u>	<u>Percent</u>	<u>Millions</u>	<u>Millions</u>
Actual	2002	0.0%	100.0%	0.000	56.094
Actual	2003	0.0%	100.0%	0.000	57.902
Actual	2004	0.0%	100.0%	0.000	60.750
Actual	2005	0.0%	100.0%	0.000	62.723
Actual	2006	0.0%	100.0%	0.000	67.780
Actual	2007	0.0%	100.0%	0.000	68.185
Actual	2008	0.0%	100.0%	0.000	71.488
Actual	2009	0.0%	100.0%	0.000	69.159
Actual	2010	0.0%	100.0%	0.000	64.313
Actual	2011	0.0%	100.0%	0.000	69.181
Actual	2012	0.0%	100.0%	0.000	71.350
Forecast	2013	0.0%	100.0%	0.000	73.278
Forecast	2014	0.0%	100.0%	0.000	75.258
Forecast	2015	0.0%	100.0%	0.000	77.291

Total Tax = Diesel Effective × Diesel Gallons + Tank Effective × Tank Gallons + Refunds

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Revenue Projection:

