

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 5792H.011
 Bill No.: HB 2801
 Subject: Taxation And Revenue - General; Taxation And Revenue - Sales And Use; Motor Fuel; Revenue, Department Of; Transportation; Transportation, Department Of
 Type: Original
 Date: March 15, 2022

Bill Summary: This proposal creates a one-time six-month tax holiday on motor fuel sales.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
General Revenue*	\$19,354	\$0	\$0
Total Estimated Net Effect on General Revenue	\$19,354	\$0	\$0

* Oversight assumes the Department of Revenue could continue to process motor fuel tax refunds (for the period October 1, 2021 – June 30, 2022) with motor fuel tax revenues that were already collected, in addition to continuing to fund 14.38 FTE as indicated by DOR. Oversight notes, General Revenue or an alternate funding source may be needed if motor fuel tax previously-collected monies are not sufficient to cover these costs.

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Gaming Fund	\$19,354	\$0	\$0
Highway Fund	\$135,476	\$0	\$0
Water Patrol Fund	\$19,354	\$0	\$0
State Road Fund	(\$319,146,235)	\$8,547,431 to \$56,982,870	\$0
Various State Funds	Unknown	\$0	\$0
Total Estimated Net Effect on <u>Other</u> State Funds	Less than (\$318,972,051)	\$8,547,431 to \$56,982,870	\$0

Numbers within parentheses: () indicate costs or losses.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Federal Highway Funds*	\$0 or (Unknown)	\$0 or (Unknown)	\$0
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0 or (Unknown)	\$0 or (Unknown)	\$0

*If MoDOT is unable to secure federal matching funds for project because of the temporary exemption in motor fuel tax.

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Total Estimated Net Effect on FTE	0	0	0

Estimated Net Effect (expenditures or reduced revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

Estimated Net Effect (savings or increased revenues) expected to exceed \$250,000 in any of the three fiscal years after implementation of the act or at full implementation of the act.

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2023	FY 2024	FY 2025
Local Government	(\$120,661,792)	\$3,161,378 to \$21,075,586	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Revenue (DOR)** assume the following regarding this proposal:

Section B

This proposal contains an emergency clause. It is assumed for fiscal note purposes this proposal would begin on July 1, 2022.

Section 142.804 Motor Fuel Tax Exemption

This provision would require a one-time six month motor fuel tax exemption of the current base rate of \$0.17 per gallon and the current SB 262 (adopted in 2021) increasing fuel tax rate for gasoline and diesel fuels. In October 2021, the first of the increasing \$0.025 per gallon went into effect. The second \$0.025 per gallon increase is scheduled to go into effect on July 1, 2022.

This proposal would stop the collection of the motor fuel tax from July 1, 2022 through December 31, 2022. This one-time stop only applies to gasoline and diesel fuel sold during that time period. This would result in a loss to the state of the \$0.22 per gallon during that time period.

The Department used information on the amount of taxes collected in FY 2021 to calculate the number of gallons sold.

Table 1: FY 2021 Gallons Sold and Taxed Collected

	Gallons sold	\$0.17 tax collected
Gasoline	2,925,258,938	\$497,294,019.51
Diesel Fuel	1,206,857,578	\$205,165,788.34

Using this same information, the department was able to estimate the SB 262 increased revenue as:

Table 2: Motor Fuel Tax Increase Revenue by Fiscal Year

Fuel Type	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027
Gasoline	\$56,218,955	\$149,917,213	\$224,875,820	\$299,834,427	\$374,793,033	\$374,793,033
Diesel	\$20,845,888	\$55,589,035	\$83,383,553	\$111,178,070	\$138,972,588	\$138,972,588
Total	\$77,064,843	\$205,506,248	\$308,259,373	\$411,012,497	\$513,765,621	\$513,765,621

This results in a loss to the state of six months of motor fuel:

	Six Months (FY 2023)
Gasoline	(\$323,605,616)
Diesel	(\$130,377,412)
	(\$453,983,028)

The motor fuel tax is distributed as follows:

State Road Fund	73%
Cities	15%
Counties	12%

Currently, a taxpayer that purchases fuel for non-highway use (farm or boat) can apply for a refund of the motor fuel tax paid. These refunds are usually claimed in the month in which the fuel is purchased. Not owing tax for the six months of calendar year 2022 would result in a savings to the state of the amount of motor fuel usually refunded. For FY 2021, there were 6,866 claims for a total of \$13,500,000 at the \$0.17 per gallon. Increasing the amount to adjust for SB 262 and for the exemption of the tax for six months will result in a savings to the State Road Fund in FY 2023 of **\$7,087,500**.

SB 262 established a system by where a taxpayer could receive a refund of the additional tax required to be paid under SB 262. During FY 2023, the increased fee under SB 262 will be \$.05 per gallon. Due to the provisions of SB 262 the refund of the \$.05 per gallon will not be claimed until FY 2024. In the fiscal note for SB 262, the department noted the following refunds were expected to be paid annually.

Table 3: Motor Fuel Tax Refund

Fuel Type	FY 2022	FY 2023		FY 2024	
		High Refunds	Low Refunds	High Refunds	Low Refunds
Tax Exemption Refund	\$0	(\$78,058,726)	(\$11,708,809)	(\$156,117,452)	(\$23,417,618)

Given that six month of purchases will be exempt from tax, the department expects that six months of the refunds will no longer be owed. This will result in a savings of **\$11,708,809 to \$78,058,726** in FY 2023.

Summary

Table 4: Estimated Revenue Impact by Provision

	FY 2023	FY 2024	
		Low	High
Fuel Tax Exemption			
Gasoline	(\$323,605,616)	\$0	\$0
Diesel	(\$130,377,412)	\$0	\$0
Total Revenue Loss	(\$453,983,028)	\$0	\$0
Fuel Tax Refunds No Longer Claimed			
Non-Highway Use	\$7,087,500	\$0	\$0
Highway Use	\$0	\$11,708,809	\$78,058,726
Total Revenue Gain	\$7,087,500	\$11,708,809	\$78,058,726
Total Revenue Impact	(\$446,895,528)	\$11,708,809	\$78,058,726

Table 5: Estimated Impact by Fund

	FY 2023	FY 2024	
		Low	High
State Fund			
State Road Fund	(\$326,233,735)	\$8,547,431	\$56,982,870
Local Funds			
CART	(\$53,627,463)	\$1,405,057	\$9,367,047
Other	(\$67,034,329)	\$1,756,321	\$11,708,809
Total Local	(\$120,661,792)	\$3,161,378	\$21,075,856

Department Funding Concerns

In the fiscal note for SB 262, the Department noted that the motor fuel refunds are paid out of the incoming motor fuel tax revenue. Distribution to the State Road Fund and the Local political subdivisions will be on hold while all money coming in is used for the issuance of the refunds. After the paying of the refunds, any remaining money would then be distributed through the regular distribution method.

This proposal would stop all incoming money from July 1, 2022 through December 31, 2022. However, during that time refund requests for taxes paid from October 1, 2021 to June 30, 2022 will be coming in. This proposal does not stop the refunds that will need to be issued between July 1, 2022 and September 30, 2022 (the SB 262 refund window). The Department notes it will need general revenue or another alternative funding source for FY 2023 to get out the \$11,708,809 to \$78,058,726 in expected refunds.

If alternative funding is not provided and the Department is required to hold the refunds until after the exemption period ends, this will result in the payment of interest on each refund. Per SB 262 the refunds are all to be issued within 45 days or the Department is required to pay interest. The current interest rate is 3%. This would significantly increase the cost to the state.

The Department notes that 14.38 FTE in the Department are paid from an appropriation funded by the state motor fuel tax. The Department is allowed an appropriation of motor fuel funding to help fund staff who work on processing the motor fuel tax. The funding is used to pay their salaries and expenses. These 14.38 FTE will result in a loss of **\$553,623**. The Department would need another source of revenue to replace the salaries in order to maintain the staff and handle the Department's normal course of business.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the DOR. For fiscal note purposes, Oversight assumes DOR could continue to process motor fuel tax refunds (for the period October 1, 2021 – June 30, 2022) with motor fuel tax revenues that were already collected, in addition to continuing to fund 14.38 FTE as indicated by DOR. Oversight notes, General Revenue or an alternate funding source may be needed if motor fuel tax revenue collections are not enough.

Officials from the **Office of Administration - Budget and Planning (B&P)** assume the following regarding this proposal:

B&P notes that this proposal contains an emergency clause. For the purpose of this fiscal note, B&P will assume that this proposal would become effective July 1, 2022.

This proposal would grant a six-month exemption on the motor fuel tax for gasoline and diesel fuel. B&P notes that this proposal would exempt both the \$0.17 tax under Section 142.803.1(1) and the additional tax under Section 142.803.3. B&P further notes that from October 1, 2021 through June 30, 2021 the additional fuel tax under Section 142.803.3 is \$0.025. Beginning July 1, 2022 through June 30, 2023 the additional motor fuel tax under Section 142.803.3 will be \$0.05. Therefore, B&P assumes that the motor fuel tax during this exemption period will be \$0.22 (\$0.17 + \$0.05) per gallon.

B&P notes that fuel tax is paid upfront by petroleum distributors. The tax is then recouped by taxpayers when they purchase the motor fuel at retail gas stations. For the purpose of this fiscal note, B&P assumes that fuel distributors will pass along the exemption to customers. However, it is possible that customers could still pay the "tax" even though distributors are granted a six-month exemption.

Fuel Tax Revenue Loss

During FY 2021, \$702,459,808 was collected in gasoline and diesel motor fuel tax. In addition, B&P estimated that the additional \$0.05 from SB 262 (2021) could generate \$205,506,248 in

additional revenue. B&P notes that based on historical collections, motor fuel taxes are remitted 50/50 between fiscal years.

Therefore, B&P estimates that this proposal could reduce motor fuel tax collections by **\$453,983,028** ($[\$702,459,808 + \$205,506,248] / 2$) from July 1, 2022 through December 31, 2022.

Fuel Tax Refunds Prevented – Non-Highway Use

B&P notes that under Sections 142.815 and 142.824, individuals purchasing motor fuel for non-highway purposes are allowed to claim a refund for the taxes paid on such fuel. B&P further notes that based on information provided by DOR, non-highway use motor fuel tax refund claims are often made within a short period of the fuel purchase.

In FY 2021, 6,866 individuals claimed non-highway use motor fuel tax refunds for total refund claims of \$13.5 million. B&P notes that these refunds were granted when the motor fuel tax was \$0.17. B&P further notes that under SB 262 (2021), the motor fuel tax is scheduled to increase by \$0.05 beginning July 1, 2022. Accounting for the increases scheduled to occur under SB 262 (2021), B&P estimates that total non-highway use refund claims could total \$14,175,000 in FY 2023.

Therefore, B&P estimates that this proposal could prevent **\$7,087,500** ($\$14,175,000 / 2$) in non-highway use refund claims during FY23.

Fuel Tax Refunds Prevented – Highway Use

B&P notes that under SB 262 (2021) taxpayers are allowed to claim a fuel tax rebate for the additional tax charged under Section 142.803.3. The rebates may be claimed from July 1 through September 30 of the year after the fiscal year in which the tax is paid. For example:

- Fuel tax paid during FY22 (October 1, 2021 through June 30, 2022) can be claimed as a refundable rebate during FY23 (July 1, 2022 through September 30, 2022).
- Fuel tax paid during FY23 (July 1, 2022 through June 30, 2023) can be claimed as a refundable rebate during FY24 (July 1, 2023 through September 30, 2023).

B&P notes that the first set of refund claims would be made during the proposed six-month motor fuel tax exemption. B&P further notes that motor fuel taxes are distributed on a one-month lag from when they are received. Therefore, motor fuel tax rebates would be claimed at a time when no motor fuel tax is being collected due to this proposed exemption. It is unclear how the rebates will be paid without revenues coming in to pay them.

In addition, since motor fuel taxes would be exempted from July 1, 2022 through December 31, 2022 the potential amount of highway use motor fuel taxes claimed during FY 2024 (for FY 2023 collections) would be lower than originally estimated. B&P estimated that under SB 262 (2021) motor fuel tax rebate claims during FY 2024 could total between \$23,417,618 and \$156,117,452 (for FY 2023 motor fuel taxes paid) depending on the number of qualified taxpayers who applied for the rebate. Therefore, B&P estimates that this proposal could prevent

between **\$11,708,809** (\$23,417,618 / 2) to **\$78,058,726** (\$156,117,452 / 2) in highway use rebate claims during FY 2024.

Summary

B&P estimates that this proposal could reduce fuel tax revenues by \$446,895,528 in FY 2023. This proposal could increase fuel tax revenues by \$11,708,809 to \$78,058,726 in FY 2024. This proposal is not expected to impact motor fuel tax revenues beyond FY 2023 and FY 2024. Table 1 shows the estimated revenue impact by provision.

Table 1: Estimated Revenue Impact by Provision

<u>Fuel Tax Exemption</u>	FY 2023	FY 2024	
		Low	High
Gasoline	(\$323,605,616)	\$0	\$0
Diesel	(\$130,377,412)	\$0	\$0
Total			
Revenue Loss	(\$453,983,028)	\$0	\$0
<u>Fuel Tax Refunds No Longer Claimed</u>			
Non-Highway			
Use	\$7,087,500	\$0	\$0
Highway Use	\$0	\$11,708,809	\$78,058,726
Total			
Revenue Gain	\$7,087,500	\$11,708,809	\$78,058,726
Total Revenue Impact	(\$446,895,528)	\$11,708,809	\$78,058,726

B&P notes that motor fuel taxes are distributed between the State Road Fund (73%), County Aid Road Trust Fund (CART) (12%), and other local fuel tax funds (15%). Therefore, B&P estimates that this proposal could reduce revenues to the State Road Fund by (\$326,233,735) in FY 2023. This proposal could increase revenues (through fewer rebate claims) to the State Road Fund by \$8,547,431 to \$56,982,870 in FY 2024. In addition, this proposal could reduce local fuel tax revenues by (\$120,661,792) in FY 2023. In FY 2024, this proposal could increase local fuel tax revenues by \$3,161,378 to \$21,075,856. This proposal is not expected to have any revenue impacts beyond FY 2024. Table 2 shows the estimated revenue impact by fund.

Table 2: Estimated Impact by Fund

State Fund	FY 2023	FY 2024	
		Low	High
State Road Fund	(\$326,233,735)	\$8,547,431	\$56,982,870
Local Funds			
CART	(\$53,627,463)	\$1,405,057	\$9,367,047
Other	(\$67,034,329)	\$1,756,321	\$11,708,809
Total Local	(\$120,661,792)	\$3,161,378	\$21,075,856

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the B&P.

Officials from the **Missouri Department of Transportation** defer to the DOR for the potential fiscal impact of this proposal. However, MoDOT notes that such a suspension would have a substantial impact on the Department. Both operations and the capital program would face financial peril, with reductions in service inevitable. Additionally, MoDOT’s ability to match all available federal funds would become uncertain. These lost funds would not be recoverable at a later date.

Oversight will reflect a \$0 or “Unknown” fiscal impact to federal highway funds for the potential loss of matching federal funds.

Officials from the **Missouri Highway Patrol (MHP)** assume the current state motor fuel tax rate is 19.5 cents per gallon. Based on the FY 2021 usage of 1,984, 995 gallons of fuel, a six-month hiatus from the motor fuel tax would result in approximately a **\$193,537** savings for the Highway Patrol from the proposed legislation.

Oversight does not have information to the contrary and therefore, Oversight will reflect the estimates as provided by the MHP.

Oversight will also reflect an “Unknown” amount of savings to Various State Funds in FY 2023 for all other state agencies that purchase motor fuel.

Officials from the **Missouri Department of Conservation** and **Office of Administration** each assume the proposal will have no fiscal impact on their respective organizations. **Oversight** does not have any information to the contrary. Therefore, Oversight will reflect a zero impact in the fiscal note for these agencies.

<u>FISCAL IMPACT – State Government</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
GENERAL REVENUE FUND			
<u>Savings</u> – MHP – fuel tax exemption p. 9	<u>\$19,354</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE GENERAL REVENUE FUND	<u>\$19,354</u>	<u>\$0</u>	<u>\$0</u>
GAMING FUND			
<u>Savings</u> – MHP – fuel tax exemption	<u>\$19,354</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE GAMING FUND	<u>\$19,354</u>	<u>\$0</u>	<u>\$0</u>
HIGHWAY FUND			
<u>Savings</u> – MHP – fuel tax exemption	<u>\$135,476</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE HIGHWAY FUN	<u>\$135,476</u>	<u>\$0</u>	<u>\$0</u>
WATER PATROL FUND			
<u>Savings</u> – MHP – fuel tax exemption p. 9	<u>\$19,354</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE WATER PATROL FUND	<u>\$19,354</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT – State Government</u> (continued)	FY 2023 (6 Mo.)	FY 2024	FY 2025
STATE ROAD FUND			
<u>Loss</u> – fuel tax exemptions p. 8	(\$326,233,735)	\$0	\$0
<u>Savings</u> – from motor fuel tax refunds that no longer need to be claimed due to the exemption period p. 8	\$0	\$8,547,431 to \$56,982,870	\$0
<u>Savings</u> – motor fuel tax refunds for non-highway use p. 8	<u>\$7,087,500</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON THE STATE ROAD FUND	<u>(\$319,146,235)</u>	<u>\$8,547,431 to \$56,982,870</u>	<u>\$0</u>
VARIOUS STATE FUNDS			
<u>Savings</u> – fuel tax exemption p. 9	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON VARIOUS STATE FUNDS	<u>Unknown</u>	<u>\$0</u>	<u>\$0</u>
FEDERAL HIGHWAY FUNDS			
<u>Loss</u> – MoDOT – potential loss of matching federal funds if not able to proceed with projects	\$0 or (Unknown)	\$0 or (Unknown)	<u>\$0</u>
ESTIMATED NET EFFECT ON FEDERAL HIGHWAY FUNDS	<u>\$0 or (Unknown)</u>	<u>\$0 or (Unknown)</u>	<u>\$0</u>

<u>FISCAL IMPACT – Local Government</u>	FY 2023 (6 Mo.)	FY 2024	FY 2025
LOCAL POLITICAL SUBDIVISIONS			
<u>Loss – fuel tax exemptions p. 8</u>	(\$120,661,792)	\$0	\$0
<u>Savings – from motor fuel tax refunds that no longer need to be claimed due to the exemption period p. 8</u>	\$0	\$3,161,378 to <u>\$21,075,586</u>	<u>\$0</u>
ESTIMATED NET EFFECT ON LOCAL POLITICAL SUBDIVISIONS	<u>(\$120,661,792)</u>	<u>\$3,161,378 to \$21,075,586</u>	<u>\$0</u>

FISCAL IMPACT – Small Business

Small businesses that purchase motor fuel could be impacted as a result of this proposal.

FISCAL DESCRIPTION

Beginning on the effective date of this bill, this bill grants a one-time six-month tax exemption on all sales of motor fuel.

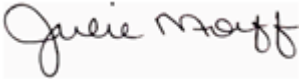
This bill contains an emergency clause.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

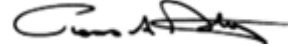
SOURCES OF INFORMATION

Department of Revenue
 Office of Administration - Budget and Planning
 Missouri Department of Transportation
 Missouri Department of Conservation
 Office of Administration
 Missouri Highway Patrol

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March 15, 2022



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March 15, 2022