

## CHAPTER 3. GAS AND USE FUEL TAXES

Fuels used in motor vehicles and airplanes are taxed in Oregon. These fuels include gasoline, use fuels and jet fuel. Use fuels are fuels other than gasoline used in motor vehicles, such as diesel, propane and natural gas. Gas and use fuel taxes are one of two components of transportation taxes in Oregon; the other is the weight-mile tax. In general, vehicles are subject to one tax or the other, but never both taxes. Heavy vehicles that are generally subject to the weight-mile tax are therefore not subject to the use fuel tax.

Revenue from the motor vehicle and use fuel taxes totaled \$777 million in the 1995–97 biennium, and is projected to be \$809 million for the 1999–01 biennium. This tax revenue is dedicated to the construction and maintenance of roads in Oregon.

### Gasoline Tax

In 1919 Oregon was the first state to institute a use tax on gasoline. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 18.4 cents per gallon respectively, for a total tax rate of 42.4 cents per gallon. The state tax is paid to the Oregon Department of Transportation by the approximately 200 wholesale fuel dealers in the state. The tax is then passed on to the consumer in the price paid at the pump.

These taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. State law allows an exception from state tax paid on gasoline in cases where the user does not benefit from the facilities or services funded by the imposed tax, or where an alternate method of payment has been established in lieu of this tax.

### Use Fuel Tax

In 1943 Oregon imposed a tax on fuels other than gasoline used in motor vehicles. Diesel is the primary fuel, but other fuels used in motor vehicles such as propane and natural gas are also taxed. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 24.4 cents per gallon of diesel respectively, for a total tax rate of 48.4 cents per gallon. There are approximately 500 retailers in the state who submit payments to the Oregon Department of Transportation for taxes collected from roughly 1,500 users. In addition, there are another 1,600 users who pay the tax directly to the state rather than paying at the pump. The use fuel tax does not apply to trucks subject to weight-mile taxes.

These taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. Oregon statutes allow an exception from use fuel taxes for cases where the user does not benefit from the facilities or services funded by the imposed tax, for vehicles operated in public services, or where an alternate method of payment has been established in lieu of this tax.

### Jet Fuel Tax

This tax is assessed in the same manner as the gasoline tax, at a rate of one-half of one cent per gallon.

### 3.001 FOREST PRODUCTS—GASOLINE

Oregon Statute: 319.320(1)(d)

Sunset Date: None

Year Enacted: Pre-1953

	Total
1997–99 Revenue Impact:	\$0
1999–01 Revenue Impact:	\$0

**DESCRIPTION:** Under certain conditions, a refund is allowed for tax paid on motor vehicle fuels (gasoline) when used for the removal of forest products on a public road. An agreement with the State Board of Forestry, the State Forester or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

**PURPOSE:** In most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

**WHO BENEFITS:** Potential beneficiaries include the 36 county governments and roadway users, but none of them uses it.

**IN LIEU:** Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

**EVALUATION:** This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads, or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.320(b). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation.*]

### 3.002 FOREST PRODUCTS—OTHER THAN GASOLINE

Oregon Statute: 319.831(1)(g)

Sunset Date: None

Year Enacted: 1965

	Total
1997–99 Revenue Impact:	\$0
1999–01 Revenue Impact:	\$0

**DESCRIPTION:** Under certain conditions, a refund is allowed for tax paid on fuels other than gasoline when used for the removal of forest products on a public road. An agreement with the State Board of Forestry, the State Forester or an agency of the United States must authorize the use of the road and require the user to pay for or perform the construction or maintenance of the county road. In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

**PURPOSE:** In most cases, the fuel and weight-mile tax pays for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

**WHO BENEFITS:** Potential beneficiaries include the 36 county governments and roadway users, but none of them uses it.

**IN LIEU:** Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

**EVALUATION:** This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.831(c). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation.*]

### 3.003 PUBLIC SERVICES

Oregon Statutes: 319.831(1)(e) and 319.831(1)(f)

Sunset Date: None

Year Enacted: 1961

	Total
1997-99 Revenue Impact:	\$2,800,000
1999-01 Revenue Impact:	\$2,800,000

**DESCRIPTION:** A refund is allowed for any tax paid on fuels other than gasoline (primarily diesel) when the fuels are used in the performance of a public service. (Public entities do not receive refunds for taxes paid on gasoline.) Under Oregon statute, incorporated cities and towns are allowed an exemption for any use, while counties may claim an exemption for use in conjunction with road construction and maintenance. Agencies of the United States are exempt under federal law.

**PURPOSE:** To avoid reciprocal taxation among public entities when the tax revenue would be used for the same purpose as the activity being taxed (road construction and maintenance).

**WHO BENEFITS:** Beneficiaries include 240 incorporated cities and towns, 36 counties, and various federal agencies. Some public service vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Government Owned or Operated Vehicles (4.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa.

**EVALUATION:** This expenditure achieves its purpose. Cities and counties, who are the major beneficiary of this provision, use diesel fuel largely in conjunction with the construction and maintenance of roads. Revenue generated through the tax on such fuels are dedicated for this purpose, and this provision reduces the processing of funds prior to returning them to public agencies to be used for this purpose. Due to the tax-exempt status of cities and counties, the filing of periodical tax reports from all cities and counties in this regard have been waived since 1967. As a result, the costs associated with the application for and payment of refunds are eliminated. Therefore, this provision is an effective continuation of established policies that avoid the reciprocal taxation of governing agencies. *[Evaluated by the Department of Transportation.]*

### 3.004 PUBLIC TRANSPORTATION

Oregon Statutes: 267.200 and 267.570(2)

Sunset Date: None

Year Enacted: 1969

	Total
1997-99 Revenue Impact:	\$2,300,000
1999-01 Revenue Impact:	\$2,400,000

**DESCRIPTION:** A refund is allowed for any tax paid on fuels other than gasoline when used in the operation of mass transit and transportation districts. Transit and transportation districts are treated the same as municipalities for purposes of claiming this exemption.

**PURPOSE:** To lower the cost of providing public transportation services.

**WHO BENEFITS:** There are three mass transit districts and six transportation districts in the state. Ultimately, the beneficiaries would be transit riders if cost savings lead to lower fares. Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Mass Transit Vehicles (4.005). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel, and vice versa.

**EVALUATION:** This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly those from lower income groups. [*Evaluated by the Department of Transportation.*]