

MEMO

July 1, 2002

To: Jim Whitty, Administrator
Road User Fee Task Force

From: Quintin Hess, Manager
Fuels Tax Group

Re: Taxing Gasoline at the Pump

You have requested a memo outlining the issues involved in moving the taxation point of gasoline in Oregon from the distributor level to the retail level, i.e. the pump. [Note: This memo does not address issues pertaining to collection of VMT fees at the pump.] We have identified a number of issues that should be taken into consideration before proposing such a change.

1. **Increased ODOT Audit Presence.** No other states tax gasoline at the retail level and haven't in the recent past. Consequently, data isn't available to study/forecast the impact of such a move by ODOT. Many states have however, moved the taxation point up the distribution chain. In virtually all cases, the states have enjoyed an increase in revenues, although in some cases the increase has been temporary due to evasion schemes subsequently developed that have reduced the increase. Moving the taxation point down the distribution chain presents an interesting question. Would the effect be the opposite of what happens when the taxation point is moved up? It is difficult to say, but it would be *critical for ODOT to maintain a strong audit presence and closely monitor revenues* in the event revenue decreases began occurring.
2. **Administration Costs Five or Six Times Greater.** Initial estimates place the cost of administering a retail based tax program in the range of *\$5 million to \$6 million a year*, and FTE would increase from 15 to a total of 67. *Start up costs could run as high as \$1.5 million.* The current program is administered at a cost of approximately \$1 million a year.
3. **Increased Taxpayer Error Rate.** Retail stations as a whole would likely make more errors due to *less sophisticated accounting systems and accounting personnel.*
4. **Increased Private Sector Reporting.** In order to 'verify' the total amount of fuel entering the state, it would be *necessary to track fuel from entry into the state, to the ultimate sale.* This is necessary in order to insure that all fuel is being accounted for. This would require *reporting by all levels of the distribution chain as well as by motor carriers hauling bulk fuel.*

5. **Evasion a Higher Percentage of Gas Tax Revenue.** A mitigating factor to this move would be the decreasing reliance on the gas tax as a major source of revenue for ODOT. The portion of ODOT revenue represented by the gas tax will be declining as alternative tax programs are used. Any evasion incurred, while a higher percentage of gas tax revenue, will be a progressively smaller percentage of total revenue.
6. **Unsophisticated Taxpayers.** Moving to the retail level would result in an increase in taxpayers from approximately 200 to 1000. The amount of tax reported would run the gamut and there would be a marked increase in smaller accounts. Initial observation indicates that this smaller segment of the fuel industry *is more susceptible to late payments and business failures* than their larger, more sophisticated suppliers. As such, bad debts would be more numerous but smaller in amount. If this move becomes likely, further analysis should be done to determine an estimate, if possible, of the amount of loss ODOT could expect to experience.
7. **New Computer System Needed.** The change would necessitate a new computer system to handle the increased number of licensees/taxpayers and the radically changed tax structure. Extensive involvement by ODOT's IS staff would be necessary to accurately estimate the cost of developing such a system.
8. **Electronic Data Filing Problematic.** The transmission of data electronically becomes both beneficial and problematic at the retail level. Electronic based filing would reduce data entry costs and the errors that go with it, but the less sophisticated base of taxpayers may be *less accepting of mandated or voluntary electronic filing.*
9. **Increased Demand for Governmental Exemptions.** A retail based tax structure could potentially encourage the demand for exemptions by governmental bodies from the federal level down to the local level. Exemptions from the retail based use fuel tax currently exists for virtually all governmental bodies in Oregon. The retail nature of the use fuel tax has contributed to the relative ease of administering the tax program with the exemptions, and *moving the gas tax to the retail level would likely facilitate political pressure to extend the exemptions to the gas tax.* In addition, legal advice would be needed to determine if the state's ability to tax the federal government could be maintained.
10. **Bucks National Uniformity Trend.** Industry buy-in to a retail based tax structure is unknown, but would be critical to it's success. The change would go against a nationwide movement toward uniformity. Multi-state operators would likely be very concerned with the 'uniqueness' of the Oregon system as it *would require a reporting structure on their end completely different from any other state.*
11. **Increased Costs to Other Governmental Entities.** ODOT currently administers local tax ordinances for Washington and Multnomah Counties, and the City of Woodburn. The tax structure of these ordinances mirrors existing state law. If the

local governments chose not to follow a move to a retail based system, their collection costs would go up as the efficiencies gained by having the same tax structure as the state would be lost. Similarly, the tax structure for aircraft fuels administered for the Department of Aviation is based on a distributor level tax. Further analysis would need to be done to estimate the impact on these other tax programs.

Thanks for the opportunity to provide input to the Road User Fee Task Force. Please feel free to contact me for clarification of any of these points or for further information.