



FUEL EXCISE TAXES

by Kurtis Morrison

The first state motor vehicle fuel excise tax in the United States was enacted in 1919 by Oregon. By the mid-1930s, all 50 states and the federal government had enacted similar taxes to support transportation projects or deficit reduction. In Colorado, motorists currently pay 40.4 cents in taxes per gallon of gasoline (22 cents credited to the state; 18.4 cents credited to the federal government). At current Colorado average fuel prices, federal and state gasoline excise taxes account for 16.3 percent of the cost for one gallon of gasoline. This issue brief provides an overview and history of state and federal gasoline excise tax rates. Information on other fuel excise taxes, such as those assessed on diesel and gasohol, are not discussed in this issue brief.

Colorado Excise Tax

The General Assembly first enacted the state fuel excise tax in 1933 at the rate of 4 cents per gallon of gasoline. Since then, the General Assembly has increased the rate seven times. The last increase occurred in 1989, when the General Assembly raised the rate to 20 cents per gallon with an automatic phase-in increase to 22 cents per gallon in 1991. The tax currently remains at 22 cents, the 21st highest rate among all states.¹ Table 1 lists all Colorado rate increases since 1933. Colorado has remained higher than the federal rate of 18.4 cents per gallon; a trend followed by a majority of states. Chart 1 compares the Colorado and federal rates since original enactment.

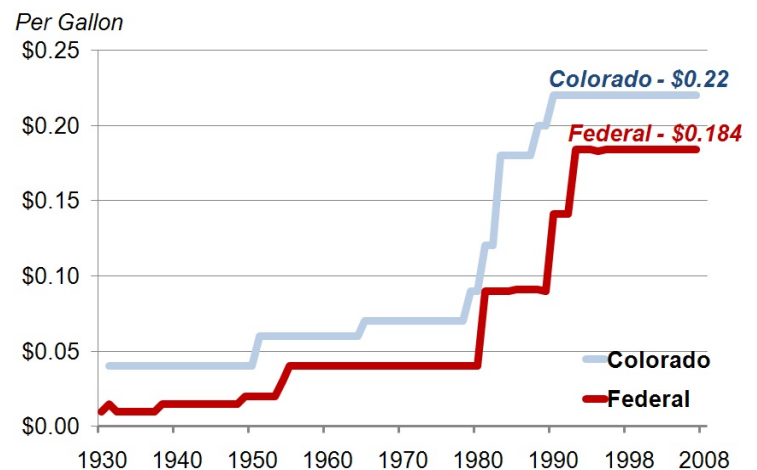
Table 1

Colorado Gasoline Excise Tax Increases

Year Enacted	Tax Rate
1933	\$0.04 / gallon
1953	\$0.06 / gallon
1967	\$0.07 / gallon
1981	\$0.09 / gallon
1983	\$0.12 / gallon
1986	\$0.18 / gallon
1989	\$0.20 / gallon
1991	\$0.22 / gallon

Chart 1

Historic Fuel Tax Rates: State and Federal

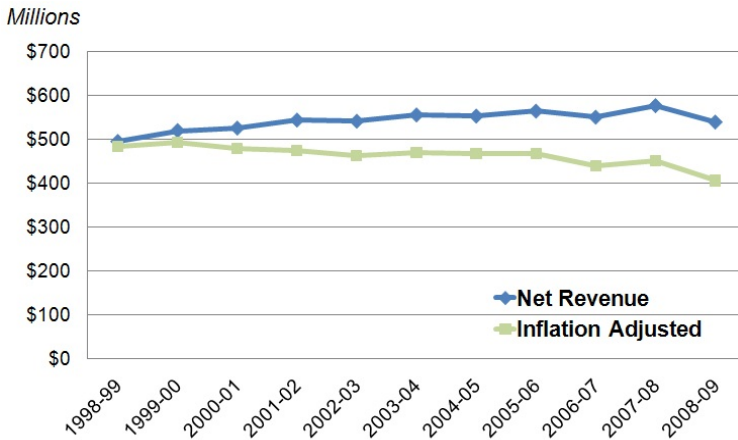


Source: Congressional Research Service, Legislative Council Staff

¹ Motor Fuel Excise Tax Rates, Federation of Tax Administrators, 2008.

Revenues. In recent years, state motor fuel taxes have generated approximately \$550 million annually. Chart 2 indicates revenues collected from 1993 to present. Distributions are set in statute. State law requires that fuel tax revenues be divided prior to allocation: the first 7 cents of the 22-cent tax provide "off-the-top" appropriation to the Ports of Entry under the Department of Revenues, the Colorado State Patrol, and the Department of Public Safety. The remainder is apportioned to the State Highway Fund (65 percent), counties (26 percent) and cities (9 percent). The remaining 15 cents is also apportioned to the State Highway Fund, counties, and cities at proportions of 60 percent, 22 percent, and 18 percent, respectively.

Chart 2
Colorado Fuel Tax Revenues:
FY 1998-99 - FY 2008-09*



*Includes gasoline, gasohol, and diesel fuel tax revenues.

Federal Excise Tax

During the 1930s, the U.S. Department of the Treasury forecasted significant deficits in the federal budget. The Roosevelt Administration submitted a package of tax recommendations to Congress to aid in closing the budget deficit. One such proposal was a 1-cent per gallon tax on gasoline set to expire in 1934. Upon approval by Congress, the Revenue Act of 1932 imposed a 1-cent per gallon tax upon fuel, the first federal gasoline excise tax, with a 1934 expiration. Upon implementation, the new tax accounted for 7.7

percent of total federal tax revenues in federal fiscal year 1933-1934. Ultimately, Congress reauthorized the fuel tax beyond its scheduled 1934 expiration. Later increases were enacted during subsequent sessions of Congress.

During the 1950s, Congress substantially increased the fuel tax. In 1956, Congress passed the Federal Aid Highway Act to create the Eisenhower Interstate Highway System. At the time, construction of the interstate highway network was the largest public works project in the U.S. to date. To pay for the project, Congress created the Highway Trust Fund supported with gasoline, diesel, tread rubber, and tire tax revenues.² The fund served as an alternative funding measure to support transportation infrastructure by providing federal assistance to states. With the expansive new investment in the nation's transportation network, by the end of the decade, Congress had increased the excise tax rate three times to 4 cents per gallon. Today, the federal tax rates is set at 18.4 cents. Since its 1932 enactment, Congress has raised the tax ten times and decreased the tax three times.

Revenue. Revenue generated by the federal excise tax are allocated between the federal Highway Trust Fund (18.3 cents) and the federal Leaking Underground Storage Tank Trust Fund (0.1 cents). Funds deposited into the Highway Trust Fund are subsequently distributed to the Highway Account (15.44 cents) administered by the U.S. Federal Highway Administration and the Mass Transit Account (2.86 cents) administered by the U.S. Federal Transit Administration. The Highway Trust Fund currently faces a cash shortfall. The U.S. Department of Transportation and Congress have held ongoing discussions to restore solvency to the fund. The fund's status and the federal excise tax are expected to be reevaluated when Congress considers a reauthorization of the Safe, Accountable, Flexible, Equitable Transportation Equity Act (SAFETEA-LU).

² *The Federal Excise Tax on Gasoline and the Highway Trust Fund: A Short History*, Congressional Research Service, April 4, 2006.