

California's Gas Tax

Transportation Infrastructure Depends on Long-Term, Reliable Revenue Stream

California's gasoline tax is notorious for being the highest state gas tax rate in the country. What is the gas tax and how did we get here?

California imposes a motor vehicle fuel tax and diesel tax on each gallon of fuel entered or removed from an in-state refinery or terminal rack. Gasoline is currently taxed at 18.4 cents per gallon while diesel is taxed at 24.4 cents per gallon. This tax is applied any time fuel is removed at the refinery or terminal rack, enters California, or is sold to an unlicensed person.

GAS TAX RATE HISTORY

According to Governor Gavin Newsom's 2022–23 Proposed Budget, the motor vehicle fuel taxes generated \$6.5 billion in revenue in 2021–22 and will produce an estimated \$7.4 billion in 2022–23. Diesel fuel taxes generated \$1.269 billion in 2021–22, with an estimated \$1.4 billion for 2022–23. The revenue generated by the fuel tax is deposited into the Highway Users Tax Account and is used to construct and maintain public roads and mass transit systems, airports, and waterways. The diesel fuel tax revenue is placed into the State Transportation Fund, which is used to construct and maintain public roads and mass transit systems.

Proposition 111 was approved by voters in 1990 and increased the tax rate on motor vehicle fuels from 9 cents to 14 cents per gallon. The initiative further increased the excise tax rate by 1 cent per gallon per year until the rate reached 18 cents per gallon on January 1, 1994, where it remained until the Legislature enacted the fuel tax swap.

In 2010, the budget bill ABx6 8 was signed into law and reduced the state sales tax on gasoline and replaced it with an increase in the fuel excise tax. This "tax swap" reduced the gasoline state sales tax to 2.25%, but added an excise tax of 17.3 cents per gallon. The budget bill's goal was to raise the same amount of money as the previous system, but the new excise tax was slowly increased and adjusted each July to retain revenue neutrality. Furthermore, the bill shifted past and future transportation-related debt service repayments on general obligation bonds from the General Fund to the fuel excise tax fund.

The gas tax/sales tax swap was supposed to be revenue-neutral at the time, and indefinitely into the future. Thus, the bill mandated that the Board of Equalization (BOE) annually adjust the excise tax rates for gas and diesel so the revenues obtained from the swap would reflect what the growth rate would have been in the absence of the swap. A recent Senate Governance and Finance Committee analysis aptly stated:

"[the] BOE then calculated an adjustment to the excise tax, which is measured as a flat amount per gallon, to reflect sales and use taxes, which apply based on a percentage of [what] the sales prices would have been but for the swap.

"As a result, the motor vehicle fuel tax rate increased \$0.17 to \$0.35 on July 1, 2010 to compensate for the removal of the state share of the sales and use tax rate that was measured at 6% of the sales price. The diesel fuel tax rate went down from \$0.18 to \$0.136, but the sales tax rate increased by 1.75% of the sales price. When voters approved Propositions 22 and 26 in November 2010, the Legislature reenacted the swap in 2011, with some modifications."

CURRENT STATE OF AFFAIRS

SB 1 was authored by Senator Jim Beall (D-San Jose) in 2017 in an effort to address the erosion of purchasing power of the fuel excise taxes and resulting numerous delayed maintenance projects on California's roads. SB 1, supported by the California Chamber of Commerce, augmented the state's motor

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vehicle fuel taxes while directing the revenue to road maintenance and construction. The bill increased the excise tax on gasoline by 12 cents per gallon and diesel fuel by 20 cents per gallon, and increased the sales and use tax on diesel by 4%. Additionally, SB 1 required an annual adjustment of the motor vehicle and diesel excise tax rates based on the California Consumer Price Index.

In 2018, Proposition 6 was placed on the ballot and opposed by the CalChamber. Although the initiative ultimately failed, it aimed to repeal all the transportation taxes adopted by the Legislature in 2017, including higher gasoline and diesel excise taxes, a new tax on vehicles, and a new tax on zero-emission vehicles. The measure also proposed requiring any future legislatively imposed taxes on fuels and vehicles to take effect only upon a statewide vote of the people.

Repealing the gas tax would have stopped transportation improvement projects already underway in every community in California, eliminated funds already flowing to every city and county to fix potholes, make safety improvements, ease traffic congestion, upgrade bridges, and improve public transportation. The Legislative Analyst's Office estimated that

the measure would have reduced spending on state and local transportation projects by nearly \$5 billion annually.

By 2021–2022, the fuel tax rate had increased to 51 cents per gallon based on inflationary adjustments. In July 2022, the gas tax rate increased 5.6%. That takes the current tax up to 54 cents per gallon. The state tax is separate from the federal excise tax of 18.4 cents per gallon, 23 cents for California's cap-and-trade program, 18 cents for the state's low-carbon fuel programs, 2 cents for underground gas storage fees, plus state and local sales taxes, which average 3.7%

CALCHAMBER POSITION

Our transportation infrastructure is critical to California's economy. The CalChamber supports revenue to repair and maintain our roads and bridges and to expand congestion management. Every day, California drivers experience more delays, more potholes and more frustration without these services. In order to be effective, the revenue must be a long-term, reliable stream, to complete multi-year projects for maintenance, safety, rehabilitation and congestion reduction, and should not be diverted from transportation spending.



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