



Fuel Tax Increase Greets Pennsylvania Motorists in 2015

When the transportation bill, Act 89 of 2013, was signed by the Governor it ushered in a series of increases to wholesale gasoline and diesel taxes, some or most of which would be passed on to the pump price. The Act did so by legislatively mandating hikes to the “the average wholesale price of taxable liquid fuels and fuels, excluding the Federal excise tax and all liquid fuels taxes”. This applies to the Oil Company Franchise Tax imposed under Title 75—Vehicles. While the semantics of whether or not this was a tax increase was debated by the Governor and the Legislature, and whether or not the oil companies would pass it along to the consumers, the end result was clear—it would impact prices at the pumps.

The average wholesale price of liquid fuels (gasoline) and fuels (diesel) is important because it is the base by which the tax millages are multiplied—the higher that base, the greater the tax paid. For example, prior to 2014 the law (Title 75, section 9002) set a range such that “in no case shall the average wholesale price be less than 90¢ nor more than \$1.25 per gallon.” In 2012 the Pennsylvania Department of Revenue determined the average wholesale price for 2013 was \$3.114 per gallon. Since this exceeds the upper end of the range, \$1.25 became the base for the tax. Act 89 eliminated that range and mandates the base as follows: for 2014 it became \$1.87 (an increase of nearly 50 percent), for 2015 it rises 33 percent to \$2.49 where it will remain through the end of 2016 before increasing again by another 20 percent to \$2.99 on January 1, 2017. No further increases beyond 2017 are specified in the law.

But this mandated average price is arbitrary and ignores fluctuations in the market price as have been seen since the middle of 2014 when the sharp decline in oil prices led to lower wholesale and retail prices for gasoline and diesel. In January 2014, the average wholesale price of gasoline for the month, as determined by the New York Harbor Conventional Gasoline Regular spot price, was \$2.672. By November the price had fallen to \$2.165. A similar story played out with diesel. The NY Harbor Ultra-Low Sulfur No. 2 Diesel spot price fell from \$3.117 to \$2.430. As of January 9, 2015, the wholesale spot prices closed for the day at \$1.29 for gasoline and \$1.72 for diesel. Thus, the current market wholesale price of both gasoline and diesel are well below the mandated price set by Act 89. It’s unlikely the Legislature will revisit this issue to let the average wholesale price accurately reflect the market price. As it stands, the tax is simply a concocted fictional concept where the average wholesale price is not the wholesale

price or anywhere near it. Fixing that would mean going to a per gallon tax, something most people could understand.

While the Act mandates the base increases, most of the millage rates will remain constant. Title 75, section 9502(a), sets four millage rates for gasoline and five for diesel.

Section 9502(a)(1) levies 60 mills, 14.94¢ per gallon in 2015—up from 11.2¢ in 2014, on both gasoline and diesel with the proceeds going for highway maintenance and construction.

Section 9502(a)(2) levies another 55 mills, 13.7¢ per gallon in 2015—up from 10.3¢ in 2014, on both gasoline and diesel. This money will be sent to county maintenance districts (currently 29 percent), highway capital projects (currently 30 percent), bridges (13 percent), bridges identified as county or forested bridges (2 percent), local roads (12 percent), and for toll road extension and conversion (14 percent).

Another 38.5 mills, 9.6¢ per gallon in 2015—up from 7.2¢ in 2014, is sent to the Motor License Fund (9502(a)(3)) and distributed to municipalities (12 percent), the Department of Transportation's county maintenance districts for highway maintenance (49 percent) and the rest to expanded highway and bridge maintenance.

Finally, section 9502(a)(4) levies another 55 mills on diesel users with the proceeds being deposited into the Highway Bridge Improvement Restricted Account within the Motor License Fund. In 2015 this adds another 13.7¢ in taxes on diesel for 2015—up from 10.3¢ in 2014.

And, Act 89 replaced the flat 12¢ per gallon retail fee, imposed on both gasoline and diesel, with an increase in the millage rate applied to the Oil Company Franchise tax wholesale price to generate the 12 cents per gallon retail fee. According to 9502(a)(5), that millage was 64 in 2014, applied to the \$1.87 wholesale price amounting to 11.9¢ per gallon, and now is 49 mills applied to the 2015 wholesale price of \$2.49 resulting in 12.2¢ per gallon.

In total, the Oil Company Franchise Tax will be 50.5¢ on wholesale gasoline in 2015—up from 40.7¢ in 2014 and on diesel the tax rose from 51¢ in 2014 to 64.2¢ in 2015. In *Policy Brief Volume 13, Number 60*, we illustrated these changes in a table for both gasoline and diesel users.

What does this mean for pump prices now? As the calendar turned from 2013 to 2014, the price at the pumps moved up to fully reflect the jump in taxes caused by the newly imposed higher wholesale price. But when 2014 gave way to 2015 and the higher wholesale tax took effect, prices at the pumps did not change. According to the [AAA Daily Fuel Gage Report](#), the average price in Pennsylvania stood at \$2.508 per gallon of regular gas with diesel averaging \$3.345 on January 6, 2015. One week prior (December 30, 2014) those prices were \$2.577 and \$3.387 respectively. Analysts expect pump prices to continue to fall through the winter until the changeover to meet summer blend

requirements. Does this imply that the wholesalers are not passing along the tax to consumers?

To answer this question, we will look at the average monthly price of regular gas for both Pennsylvania and the U.S. during January of 2014 and January of 2015 as reported by AAA. In January of last, when the first wholesale tax increase took place, the spread between the two average pump prices was about 23¢ as the Pennsylvania monthly average came in at \$3.52 compared to the U.S. monthly average of \$3.29.

As of January 9, 2015 the average price of regular gas in the US was \$2.17 while across Pennsylvania it stood at \$2.46—a difference of 29¢. While the increase to the tax on wholesale gas didn't cause the pump price to rise in January, it certainly limited its decline compared to the drop in other states. In sum, in January of 2014, Pennsylvania gasoline averaged 23 cents per gallon more than the national price. A year later the difference is 29 cents and could go higher as the month wears on. It appears fairly certain that Pennsylvania's tax is being passed on in higher pump price, although the full 9.8 cent rise is not yet in the retail price. Another month should answer the question of whether it will be fully passed on. Given the very thin margins in the business, passing the tax along is a virtual necessity.

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