House Transportation Committee Informational Meeting on HB 1057
Dan Hassell and Jack Frehafer
Department of Revenue
Monday, May 23, 2016

Chairman Taylor, Chairman Keller, and members of the Committee, my name is Dan Hassell, the Deputy Secretary for Tax Policy of the Department of Revenue. With me today is Jack Frehafer, who is with our Office of Chief Counsel. Jack is the Department's legal expert on Pennsylvania fuel taxes. Thank you for giving us the opportunity to discuss the Department's comments on HB 1057.

I would like to start by providing a little historical perspective. Almost 20 years ago Act 3 of 1997 made major changes in the taxation of motor fuels in Pennsylvania, and fixed a number of problems for taxpayers and the Department. Briefly, Act 3:

- Moved the point of taxation for diesel fuel from the user level up to the distributor level, making compliance much easier for the industry;
- Recognized the recently-implemented federal dyed diesel fuel program, improving our enforcement methods;
- Brought Pennsylvania into compliance with the International Fuel Tax Agreement, reducing the reporting burden on the trucking industry; and
- Introduced some basic provisions regarding the taxation of alternative fuels, which were then only just being recognized for their potential use in both passenger and commercial vehicles.

Act 3's diesel fuel and IFTA enhancements were very successful in improving fairness and compliance with the tax law. As you know, there has been rapid growth and innovation in the availability and use of alternative fuels for vehicles, but the tax law has not kept pace.

The first area relates to plug-in electric vehicles, which is an issue this committee has grappled with in the past. Current law requires electric vehicle owners to file monthly reports with the Revenue Department calculating and paying fuel tax on the amount of electricity their vehicle consumes. However, in the absence of some mechanism for tax reporting, owners of those vehicles are able to use the public highways without contributing to the cost of road maintenance.

HB 1057 imposes a road-use registration fee on electric vehicles in exchange for exempting them from the payment of road use taxes on the electricity actually consumed by the vehicles. As provided in the bill, PennDOT would administer the fee as part of the annual vehicle registration.

As proposed, the fee will be calculated and published by the Department on a gasoline-gallon equivalent basis, which is the same formula currently used for the taxation of all alternative fuels. The fee will be based on the energy used annually by an average electric vehicle. Given current prices, we expect the fee would be approximately $73 for 2017.

Secondly, the bill moves the point of taxation for alternative fuels up to the distributor level, so that it is similar to how gasoline and diesel fuel are currently taxed. However, this bill also allows a distributor or user to maintain the retail imposition of fuel taxes in situations where it is more practical to do so.

HB1057 also further provides for:

- Exempt entities and exempt uses of fuel, such as school buses and farm vehicles;
- IFTA compliance by addressing recent PA Supreme Court decisions regarding recordkeeping and decal handling;
- Tax administration by requiring electronic filing of tax returns in most circumstances; and
- Fuel blending activities.

The Department is recommending an amendment to HB 1057 to clarify various technical issues in the bill, which we have provided to the Chairman. Briefly, the Department's amendment:

- Allows for the use of package delivery services as an alternative to US Mail;
- Resolves a conflict in current law concerning how the calculated tax rate is rounded up or down;
- Provides an updated effective date; and
- Other minor clarifications of the statute.

Thank you for your attention, and we would be happy to address any questions that you may have.

HB 1057 PN 1375 - Alternative Fuels and Motor Fuels Tax Compliance Proposals

Assumed effective date of 10-1-16 except Electric Vehicle Fee (1-1-17)

(dollar amounts in thousands)

Liquid Fuels and Motor Carrier Compliance (Revenue and Cost Savings)

New Revenue	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Modernize Administration [1/]	$ 59	$ 191	$ 190	$ 192	$ 193
Risk Management [2/]	$ -	$ -	$ -	$ -	$ -
Penalty and Citations [3/]	$ 324	$ 520	$ 518	$ 522	$ 526
Collection of Outstanding Debt [4/]	$ -	$ 495	$ 990	$ 1,500	$ 1,500
Total	$ 383	$ 1,206	$ 1,698	$ 2,214	$ 2,219
Cost Savings					
Clarify Exempt Entities [5/]	$ 33	$ 50	$ 50	$ 50	$ 50
Recordkeeping [6/]	$ 100	$ 150	$ 150	$ 150	$ 150
Total	$ 133	$ 200	$ 200	$ 200	$ 200

Alternative Fuels (New Revenues)

New Revenue	**2016-17**	**2017-18**	**2018-19**	**2019-20**	**2020-21**
Modernize Administration [1/]	$ 4	$ 15	$ 16	$ 17	$ 19
Alternative Fuels Distributor [7/]	$ 169	$ 297	$ 321	$ 348	$ 380
Electric Vehicle Road Fee [8/]	$ 442	$ 1,102	$ 1,087	$ 1,087	$ 1,087
Blenders [9/]	$ 422	$ 742	$ 801	$ 871	$ 950
Total	$ 1,037	$ 2,155	$ 2,225	$ 2,323	$ 2,435
Total Revenue Impact	$ 1,421	$ 3,361	$ 3,923	$ 4,537	$ 4,655
Total Fiscal Impact (revenue + cost savings) [10/]	$ 1,554	$ 3,561	$ 4,123	$ 4,737	$ 4,855

Notes:

[1/] The main source of new revenue is the legislative reinforcement of DOR policy creating mandatory e-filing (which begins 10-1-16). 2016-17 estimate includes adjustment of an initial delay while rolling out these changes.

[2/] The changes to bonding requirements are expected to be revenue neutral.

[3/] This changes misdemeanor offenses to summary offenses to reduce litigation and improve enforcement.

[4/] Estimate of improvements in collections of outstanding debt. It assumes a 50% increase in delinquent collections, with a three year phase-in to full implementation. The fourth year will be the start of collections at the new rates set by Act 89. The delay is due to the liens not being collected until the property is sold.

[5/] This provides clarification on qualifications for exempt entities and tax exempt uses to reduce litigation.

[6/] This strengthens the taxpayers' recordkeeping requirements.

[7/] This eliminates the confusing dealer/user term and replaces it with distributor to match statutes for gas and diesel to clearly define the tax payer.

[8/] Is an annual fee to take the place of the alternative fuels tax on electricity and will be under the control of PennDOT.

[9/] This addresses blending operations to ensure that applicable taxes are collected.

[10/] Original one-year estimates from the Bureau of Motor and Alternative Fuels are rate adjusted to Act 89 rates, then grown using 2016-17 Executive Budget estimates for Liquid and Alternative Fuels Taxes.