

February 6, 2019

Fuel Tax Brief
Prepared by the Joint Fiscal Office

1) What is the Fuel Tax?

Found in 33 V.S.A. § 2503. It was created by Act 134 of 2015.

It is a tax imposed on the retail sales of the following energy source:

- Heating oil, propane, kerosene, and other dyed diesel fuel
- Natural gas and coal
- Electricity

The tax rates are as follows:

- \$0.02 on the retail per gallon price of heating oil, propane, kerosene, and other dyed diesel fuel.
- 0.75% on the sales of natural gas and coal.
- 0.5% on the sales of electricity.

There is also a \$0.01 per gallon tax on petroleum distributors as a licensing fee.

The tax is collected by the distributor and is remitted monthly. It sunsets on June 30, 2019.

2) Where does the revenue go?

All funds from the Fuel Tax are to be deposited into the Home Weatherization Assistance Fund which is maintained by the State Office of Economic Opportunity. These funds are used to fund the Home Weatherization Assistance Program, which helps lower-income residents make energy efficient improvements to their home.

3) Have there been any changes to this tax over the years?

Prior to FY2016, the Fuel tax was known as the Fuel Gross Receipts tax. The Fuel Gross Receipts tax had three main differences from the current Fuel Tax

1. *Different rate structure:* the tax rate used to be 0.5% on the sales of all these energy sources (heating oil, propane, dyed diesel fuels, natural gas, electricity, and coal). It also required the sellers to remit the tax quarterly, instead of monthly.

2. *Rebate program:* Prior to 2016, fuel sellers could obtain a rebate on their Fuel Gross Receipts Tax liability if they participated in conservation programs that were part of the Weatherization

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Program. It required the Office of Economic Opportunity, who operates the program, to maintain an escrow account equal to 2.5% of the annual Fuel Tax revenues for these rebates

3. *Sunset of the program*: The fuel tax was set to expire June 30, 2016

4) How much do we collect in Fuel Tax revenue?

In fiscal year 2018, we collected \$10.23 million. In fiscal year 2017, we collected \$10.46 million.

Revenues by energy source:

- \$4-5 million per year from heating oil, propane, kerosene and dyed diesel fuel
- \$1-1.2 million per year from natural gas and coal
- \$4-5 million per year from electricity

An additional \$1.3 million in revenue comes from the Petroleum Distributor Licensing Fee. This money is dedicated to the Petroleum Cleanup Fund.

Prior to the Fuel Tax, the Fuel Gross Receipts Tax was collecting between \$6-8 million per year.

5) What do other states do?

A survey of other states found that few, if any, states have a specific tax on heating oils or fuels used to heat homes. There are some states that tax petroleum products or fuels, but those states often provide an exemption or credit if those fuels are used in homes (Connecticut, New Jersey).

There are a handful of states that charge a specific tax to electricity:

- Texas charges a gross receipts tax to the sale of electricity. The rate depends on population of the city and ranges from 0% to 1.997%.
- Florida charges a gross receipts tax of 2.6% on the sale of electricity. However, residential homeowners are exempt from the tax.
- Alabama charges a Utility Privilege Tax equal to 2-4% of gross receipts on electricity.
- Arizona charges a Transactions Privilege Tax to out-of-state electricity providers. Manufacturers receive a credit for taxes paid.

Many states apply their sales tax to the sale of electricity. These include Colorado, Arkansas, Georgia, Indiana, Iowa, Kansas, Massachusetts and New York.

Electricity and fuels sold to a residence for heating are exempt from Sales and Use Tax in Vermont. States with similar tax exemptions include California, Connecticut, Idaho, Maine, Mississippi, Missouri, and Nevada.