CHAPTER 3. GAS, USE, JET AND AVIATION FUEL TAXES

Fuels used in motor vehicles and airplanes are taxed in Oregon. These fuels include gasoline, use fuels and jet fuel. Use fuels are fuels other than gasoline or jet fuel used in motor vehicles, such as diesel, propane and natural gas. Gas, use, and jet fuel taxes are one of two components of transportation taxes in Oregon; the other is the weight-mile tax. In general, vehicles are subject to one tax or the other but not both. Heavy vehicles that are generally subject to the weight-mile tax are therefore not subject to the use fuel tax. Revenue from the motor vehicle, use and jet fuel taxes accounted for by the Department of Transportation totaled $792 million in the 1999–01 biennium.

Most of the gas and use fuel tax revenue is dedicated to the construction and maintenance of roads in Oregon. Gas taxes from gas sold for aviation use and the jet fuel tax revenues are used to fund aviation programs.

Gasoline Tax

In 1919 Oregon was the first state to institute a use tax on gasoline. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 18.4 cents per gallon respectively, for a total tax rate of 42.4 cents per gallon. The federal tax rates for gasohol vary by alcohol content. In addition to the state and federal taxes, two Oregon counties and five cities also assess local gas taxes. The state tax is paid to the Oregon Department of Transportation (ODOT) by the approximately 200 licensed wholesale fuel dealers in the state. The tax is then passed on to the consumer in the price paid at the pump. Depending on the use of the fuel, these taxes may be refunded to the consumer. See the refunds section below.

Use Fuel Tax

In 1943 Oregon imposed a tax on fuels other than gasoline used in motor vehicles. Diesel is the primary fuel, but other fuels used in motor vehicles such as propane and natural gas are also taxed. Currently, the state of Oregon and the federal government impose taxes of 24 cents and 24.4 cents per gallon of diesel respectively, for a total tax rate of 48.4 cents per gallon. There are approximately 560 licensed retailers in the state who submit payments to ODOT for taxes collected from consumers of use fuels. In addition, there are another 1,560 users operating more than 12,000 vehicles who have obtained ODOT Use Fuel User licenses and who pay the tax directly to the state rather than paying at the pump. The use fuel tax does not apply to trucks subject to weight-mile taxes. Some consumers of use fuels are excepted from the use fuel tax and may claim refunds for the tax paid. See refunds discussion below.

Gasoline and Other Fuel Tax Refunds

The state gasoline and use fuel taxes are intended to assess users of public roadways for a fair share of the related construction and maintenance costs for roads. State law allows an exception from these taxes in cases where the user does not benefit from the facilities or services funded by the imposed tax, or where an alternate method of payment has been established in lieu of the tax. Examples of these uses include: use of gasoline for cleaning or dyeing, in power take-off equipment, in stationary gas engines, or for other uses that do not propel vehicles on public highways. Gasoline or other fuel used on private property is treated similarly. Refunds may be claimed for taxes paid on gasoline or other fuels used in these ways. Finally, some consumers of gasoline or other fuels for highway tranportation use may claim refunds when specifically allowed in statute. These highway use refunds are considered to be tax expenditures and are described in the following pages. Additional information about refunds is available from the Department of Transportation Fuels Tax Group at http://www.odot.state.or.us/fsbpublic/ftg/refunds.htm

Aircraft Fuel Tax

This tax is assessed in the same manner as the gasoline tax, but at a rate of nine cents per gallon for all fuels except jet fuel. A lower rate of one cent per gallon applies to jet fuel. When consumers purchase gasoline for use as aircraft fuel, they may be required to pay the full gasoline tax rate of 24 cents per gallon at the time of purchase. In such a case, statute allows consumers to claim a refund of the extra 15 cents per gallon of tax paid.

3.001 FOREST PRODUCTS—GASOLINE

Oregon Statute: 319.320(1)(b, d)
Sunset Date: None
Year Enacted: Pre-1953

	Total
2001–03 Revenue Impact:	$0
2003–05 Revenue Impact:	$0

DESCRIPTION: A refund is allowed for tax paid on gasoline when used: A) for the removal of forest products on certain public roads, or B) for construction or maintenance of the roads used for such forest products removal. Only roads that are not state highways or city streets, or are county roads approved by the county may be considered when calculating the fuel tax eligible for refund. An agreement with the State Board of Forestry, the State Forester, the county, or an agency of the United States must authorize the use of the road. In order to qualify for refunds of tax on fuels used for county road use, the user is required to have the same authorization to use the road as above and in addition is required to pay for construction or maintenance of the county road.

In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

PURPOSE: In most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

WHO BENEFITS: Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds. Counties and their taxpayers would benefit as well by passing the cost of construction and maintenance of these roads on to businesses.

IN LIEU: Financial responsibility for the construction and maintenance of the roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads, or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.320(b). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation.*]

3.002 FOREST PRODUCTS—OTHER THAN GASOLINE

Oregon Statute: 319.831(1)(c, g)
Sunset Date: None
Year Enacted: 1965

	Total
2001–03 Revenue Impact:	$0
2003–05 Revenue Impact:	$0

DESCRIPTION: A refund is allowed for tax paid on fuels other than gasoline when used: A) for the removal of forest products on certain public roads, or B) for construction or maintenance of the roads used for such forest products removal. Only roads which are not state highways or city streets, or are county roads approved by the county may be considered when calculating the fuel tax eligible for refund. An agreement with the State Board of Forestry, the State Forester, the county, or an agency of the United States must authorize the use of the road. In order to qualify for refunds of tax on fuels used for county road use, the user is required to have the same authorization to use the road as above, and in addition is required to pay for construction or maintenance of the county road.

In some cases, construction of specific roadway is necessary for the removal of forest products. This provision allows counties to contract with the users of a roadway for the maintenance and improvement of that specific section of roadway.

PURPOSE: In most cases, the fuel and weight-mile taxes pay for the general use of the transportation system where tracking user damage to identifiable areas is difficult. In this case, however, the section of roadway over which heavy loads are moved is easily identified, and cost to the user can be more directly allocated to a specific section of roadway.

WHO BENEFITS: Potential beneficiaries include businesses that transport forest products to the extent that any required road maintenance costs are surpassed by the amount of refunds. Counties and their taxpayers would benefit as well by passing the cost of construction and maintenance of these roads on to businesses.

IN LIEU: Financial responsibility for the construction and maintenance of the county roadway in use is contracted with the county court and county commissioners in lieu of paying fuels tax.

EVALUATION: This expenditure is ineffective in achieving its purpose as the costs of construction or maintenance of the county road would be higher than that of fuels tax. Removal of forest products are typically performed on roads other than state highways, county roads or city streets, and a tax refund is allowed for fuels used for this purpose under ORS 319.831(c). A review of fuels tax refunds shows that, in the case of removal of forest products, fuels used on county road constitutes only a very small volume relative to total fuel consumption. Therefore, users typically pay tax for fuels used on county and other public roads and claim refunds for fuels used off road.

Furthermore, virtually no one knows about this provision. The public works department of counties with major timber operations, the Forest Service, and timber industry representatives were contacted. There was only one case identified where this provision had been exercised and it was approximately 30 years ago. [*Evaluated by the Department of Transportation*.]

3.003 FUEL FOR AIRCRAFT DEPARTING THE U.S.

Oregon Statutes: 319.330(2)
Sunset Date: None
Year Enacted: 1959

	Total
2001–03 Revenue Impact:	Less than $50,000
2003–05 Revenue Impact:	Less than $50,000

DESCRIPTION: Under certain conditions, a refund is allowed for tax paid on fuel if satisfactory evidence is presented to the Department of Aviation that the aircraft fuel upon which the tax is paid has been used solely for aircraft operations from a point within the state of Oregon directly to a point not within any state of the United States.

PURPOSE: To promote international airline travel to and from Oregon airports, to make it attractive for airlines with international flights to operate from Oregon airports, and to capture the economic and trade benefits this would bring to the state.

WHO BENEFITS: The immediate beneficiaries are airlines–both domestic and international–whose aircraft use fuel to travel to and from foreign destinations. Indirect beneficiaries could include individuals and businesses that use such international flights.

EVALUATION: It is estimated that a very small portion of international air travel originates to or from Oregon. [*Evaluated by the Department of Aviation*.].

3.004 PUBLIC SERVICES

Oregon Statutes: 319.831(1)(e-f), (h-k).
Sunset Date: None
Year Enacted: 1961, modified in 2001 (SB 483)

	Total
2001–03 Revenue Impact:	$8,100,000
2003–05 Revenue Impact:	$10,500,000

DESCRIPTION: A refund is allowed for any tax paid on fuels other than gasoline (primarily diesel) when the fuels are used in the performance of a public service. (Public entities do not receive refunds for taxes paid on gasoline except for uses off of state, city, or county roads.) State agencies, counties, incorporated cities and towns, rural fire protection districts, road assessment districts, and special districts (as defined in ORS 198) are allowed refunds for any use. Agencies of the United States are exempt under federal law. School and education service districts or their contractors may also claim refunds for fuels used in transporting students.

The 2001 Legislature added state agencies, road assessment districts, and local government districts described in ORS 198 to the list of entities that may claim refunds of use fuel taxes paid. The legislation also broadened the refund for counties to include all use instead of just road maintenance. These entities are allowed to claim refunds for taxes paid on or after January 1, 2001.

PURPOSE: To avoid reciprocal taxation among public entities, to avoid taxing public services that are funded through the tax (in particular, road maintenance services), and to equalize tax treatment across government entities.

WHO BENEFITS: Beneficiaries include the state government, at least 240 incorporated cities and towns, 36 counties, 198 school districts, 21 educational service districts, about 230 rural fire protection districts, and various other local districts and federal agencies. The Department of Transportation estimated that state government would benefit from more than $900 thousand in refunds in the 2001–03 biennium and more than $1.2 million in refunds in the 2003–05 biennium as a result of the 2001 law changes.

Some public service vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here, and are also included in the weight mile tax expenditure Government Owned or Operated Vehicles (4.004). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax on any portion of their use would be exempt from taxation on use fuel for that part, and vice versa.

EVALUATION: This expenditure achieves its purpose. Cities, counties, and the state use diesel fuel substantially in conjunction with the construction and maintenance of roads. Revenue generated through the tax on such fuels are dedicated for this purpose, and this provision reduces the processing of funds prior to returning them to public agencies to be used for this purpose. By expanding the law to allow refunds for other government uses to other government agencies and districts, the differing tax treatment of the past is eliminated. [*Evaluated by the Department of Transportation*.]

3.005 PUBLIC TRANSPORTATION

Oregon Statutes: 267.200 and 267.570(2)
Sunset Date: None
Year Enacted: 1969

	Total
2001–03 Revenue Impact:	$2,500,000
2003–05 Revenue Impact:	$2,600,000

DESCRIPTION: A refund is allowed for any tax paid on fuels other than gasoline when used in the operation of mass transit and transportation districts. Transit and transportation districts are treated the same as municipalities for purposes of claiming this exemption.

PURPOSE: To lower the cost of providing public transportation services.

WHO BENEFITS: Three mass transit districts, seven transportation districts, and one county service district in the state provide public transportation service. Ultimately, the beneficiaries would be transit riders if cost savings lead to lower fares. Some transit vehicles are exempt from both the use fuel and weight-mile taxes. Those vehicles are included in the revenue impact reported here and in the weight-mile tax expenditure Mass Transit Vehicles (4.005). However, it should be noted that vehicles would not be subject to both taxes. Vehicles that were subject to weight-mile tax would be exempt from taxation on use fuel and vice versa.

EVALUATION: This expenditure achieves its purpose. Without this exemption, fares could be higher, which would decrease ridership, particularly those from lower income groups. [*Evaluated by the Department of Transportation*.]